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EFTA FREE TRADE RELATIONS

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FOREWORD

A Common Platform for Securing the Benefits of Free Trade

This edition of the EFTA Bulletin – a yearly publication dedicated to one of EFTA's fields of activity – explores EFTA's free trade relations with partners outside the European Union.

The prosperity of the EFTA economies is highly dependent on access to foreign markets. At the same time, openness to incoming goods, services and investment constitutes a key factor for the EFTA States' international competitiveness. The expansion of free trade relations with countries outside the European Union – or "third countries" in EFTA jargon – is therefore an important element on the economic agenda of the EFTA States.

Recognising that better outcomes can be achieved by joining forces, the EFTA States have used EFTA as a platform for pursuing free trade agreements (FTAs). They coordinate positions and choose to speak with one voice at the negotiating table. This practical arrangement between like-minded countries has worked well and continues to deliver tangible results.

Today, EFTA has built one of the largest global trade networks extending well beyond the confines of Europe. This should not be taken as a sign of dissatisfaction with multilateral cooperation. On the contrary, EFTA free trade agreements build and expand on the model of the World Trade Organization (WTO). These agreements accommodate the need to deepen economic relations with interested partners prepared to pursue further liberalisation.

The core objective of EFTA's free trade policy is to improve the competitive position of its business operators and to avoid discrimination resulting from preferential agreements concluded by EFTA's main competitors. To achieve these goals, EFTA has had to adapt to an evolving external economic environment and the challenges and opportunities that have been created by a rapidly globalising world. In fact, it has been remarkably successful at responding to new developments and emerging trade policy trends.

As EFTA free trade agreements "went global" from the second half of the 1990s and became detached from the original regional setting, EFTA led the way in concluding agreements with a diverse set of partners worldwide. The agreement with Singapore of 2002 – the first FTA between Europe and Asia – is a case in point. With the emergence of comprehensive FTAs, extending to areas such as services, investment and government procurement, EFTA has remained at the forefront by signing ambitious deals early on with interested partners such as Chile and Mexico. Recently, the FTAs with Bosnia and Herzegovina, Montenegro and the Central American States of Costa Rica and Panama have continued to broaden the scope of EFTA free trade agreements by introducing provisions on sustainable development.

The third-country file is likely to remain very active as EFTA continues to pursue the dual goals of broadening and deepening its free trade network in tandem with international developments. Traditional perspectives may be challenged as we reach out to an increasingly diverse set of potential new trading partners. In parallel, the upgrading of existing FTAs will prove essential for preserving a competitive position on third-country markets. In addition, the emerging "mega-regionals", such as the Transatlantic Trade and Investment Partnership between the European

Union and the United States, are likely to create new dynamics and set new trade policy yardsticks which are bound to change certain parameters of our work.

To be able to continue to adapt and deliver successful trade policy outcomes, EFTA will again rely on its traditional values of flexibility and pragmatism. As always, new trade agreements will be pursued wherever deemed politically and economically attractive and appropriate – whether in completing the European map, expanding links with the dynamic Asian region, building bridges to Africa's growing economies or strengthening transatlantic links. EFTA is well placed to make the most of these opportunities.

This edition of the Bulletin brings together perspectives from trade practitioners, parliamentarians, social partners and academia. The opening contributions by the EFTA Chairperson, Minister Aurelia Frick of Liechtenstein, and EFTA Deputy Secretary-General, Ivo Kaufmann, examine the evolution and scope of EFTA's free trade agreements. Following this overview, the Bulletin looks at insiders' perspectives on free trade negotiations through interviews with chief negotiators. Next, we have invited representatives of the EFTA advisory bodies – the EFTA Parliamentary Committee and the EFTA Consultative Committee – to share their personal views on the broader context of EFTA's free trade activities. The Bulletin closes with two articles by well known academics in the field, Patrick Low and Thomas Cottier. Their thought-provoking essays offer personal perspectives on the evolution of the general frameworks in which EFTA conducts its free trade policy – the WTO multilateral system and the European integration project. Contributions from eight companies complement this edition of the Bulletin by offering perspectives from the business world.

Kristinn F. Árnason

Secretary-General

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THE ROLE OF EFTA'S THIRD-COUNTRY POLICY

"The global economy has become the natural operating environment for many EFTA companies."

Aurelia Frick
Minister of Foreign Affairs of Liechtenstein
EFTA Chairperson

The EFTA countries are prosperous. Their economies, based on high value-added manufacturing and services, have recovered well from the recent global economic crises and are continuing to record some of the highest levels of gross domestic product (GDP) per capita. Their companies are competitive, strongly export-oriented and well connected to the global value chains.

The economies of the EFTA countries are open, and trade accounts for a significant part of their economic performance. Accordingly, the governments of the EFTA States attach great importance to further opening up world markets for goods and services. They consider non-discriminatory market access as a cornerstone for ensuring a favourable environment for their businesses and the best way to maintain the dynamism of their economies. While the European Union naturally remains EFTA's leading partner, a considerable part of business and trade is conducted with other parts of the world.

The EFTA countries are staunch supporters of and active participants in the multilateral trading system. They have also continued to extend their network of free trade agreements, keeping track of the evolving landscape of world trade. This has been particularly relevant in an environment characterised by ongoing difficulties in the World Trade Organization's Doha Development Agenda negotiations and persistent economic uncertainties. EFTA sees FTAs as a complement to the multilateral framework of the WTO, not as an alternative. Both the WTO system and preferential agreements are essential components of international economic governance. Their relevance has again been demonstrated recently when they were confirmed as important instruments for fending off protectionist pressures.

Since the early 1990s, EFTA has undertaken sustained efforts to enlarge its network of FTAs, both in and outside Europe, by embracing the opportunities and challenges arising from the end of the Cold War, economic globalisation and the rise of emerging economies. Today, this network is one of the largest in the world. Further negotiations and exploratory talks are ongoing with major emerging economies and a number of other prospective partners.

The criteria for entering into new negotiations are first and foremost based on economic considerations – an assessment of the current and potential economic importance of prospective partners, and of the potential for discrimination arising from other FTAs concluded by these countries. The other party's willingness to enter into negotiations and the chances of successfully concluding such negotiations are also assessed.

One may wonder why these four rather small EFTA countries have been so successful at developing economic ties on a global scale. The reasons for this are manifold. First of all, by any measure, the EFTA countries are attractive trading partners. They have high per capita incomes and a sizable aggregate market. Together, the EFTA countries are the twelfth largest merchandise trader and sixth largest services trader (counting the European Union as one). In fact, EFTA's merchandise trade figures are comparable with, or bigger than, several large emerging economies. The EFTA countries are also significant investors abroad, ranking third in global outward stocks of foreign direct investment. The global economy has, in many ways, become the natural operating environment for many EFTA companies. Several of them are world leaders in sectors such as machinery, shipbuilding and pharmaceuticals. The EFTA countries are home to 16 of the world's 500 largest companies. In addition, they provide a bridge to the larger European market through their close links with neighbouring countries.

To use my country, the Principality of Liechtenstein, as an example: although small, it has a very well developed and remarkably diversified economy. Like the other EFTA States, Liechtenstein's economy is highly industrialised and home to several leading companies in their respective fields of activity. The product base of Liechtenstein's companies is varied and has tended to focus on specialised high-tech sectors. More than a third of its products are exported to markets outside Europe. The importance of the manufacturing sector is strikingly high, as it contributes close to 40% of GDP and employs over 40% of the workforce. Liechtenstein's industries also have significant investments abroad. Overall, they keep four times more employees on their payroll abroad than at home. As in the other EFTA countries, trade in services is of equally high importance to the economy with, in the case of Liechtenstein, the financial services sector playing a particularly significant role.

The EFTA countries have successfully built an extensive network of FTAs and have a stake in enlarging it further. Going down this road is not without challenges. The landscape of global trade is changing rapidly. Regional "mega" initiatives – such as the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership between the European Union and the United States, and the plurilateral Trade in Services Agreement – have the potential to set new global standards and create new operating systems for global trade. EFTA will follow these developments closely and adjust accordingly. The further proliferation of FTAs puts pressure on limited trade negotiating capacity and, in some cases, creates challenges for countries wishing to enter into new negotiations. In addition, a difficult economic environment, marked by currency depreciations and persistent negative trade balances, has given rise to public scepticism towards economic liberalisation in many countries. Against this background, and to be in a position to achieve balanced outcomes in its FTAs, EFTA has to adjust its approach to trade negotiations continuously. This is particularly relevant in regard of developing countries, which tend to have different sensitivities reflecting their stages of economic development.

The EFTA States can be proud of what they have achieved so far. I remain confident that they will be able to meet the challenges of the future.

Signing of EFTA-Ukraine FTA, Reykjavik, June 2010.

BUSINESS PERSPECTIVES: Marine Harvest, Norway

Korea Chooses Salmon for Dinner

Marine Harvest Group, headquartered in Bergen, is Norway's biggest food producer. As a leader in farmed salmon, the company has a presence in 22 countries and 10 200 employees worldwide. In October 2013, Marine Harvest opened its first processing plant in Seoul, Korea.

Since the entry into force of the free trade agreement between EFTA and the Republic of Korea in 2006, exports of Norwegian salmon to Korea have increased from 3 600 to 8 300 tons, representing half of Korea's total salmon imports.

"Asia is an exciting region for us. Its markets for salmon have an annual growth rate of around 10 to 15%. Free trade agreements such as the one between EFTA and Korea are important to us and other Norwegian seafood companies, as they provide free access to markets that are "hungry" for salmon. We hope to see more agreements like this going forward, China and Russia being high on our list.

Marine Harvest's new processing plant in Seoul will provide Korean consumers with better access to fresh, high-quality salmon, making it available within 36 to 48 hours of harvesting on the Norwegian coastline. This is thanks to our competent and efficient organisation, which is able to implement a growth strategy fast, based on consumer insight, branding and local presence", says Marine Harvest's CEO, Alf-Helge Aarskog.

PART I:
Going Global – Overview of EFTA's Free Trade Relations

Ivo Kaufmann
Deputy Secretary-General of EFTA
Head of Trade Relations

EFTA's Evolving Free Trade Relations

Intra-EFTA Trade Relations

For over 50 years, the European Free Trade Association has provided its Member States with a platform for pursuing economic and trade objectives. The Stockholm Convention, which entered into force in 1960, was set up to create a free trade area among the seven founding members of EFTA (see Table 1: EFTA Membership 1960-2013). By the mid-1960s, industrial tariffs and quantitative restrictions on goods had successfully been eliminated. While trade in processed agricultural products, as well as fish and other marine products, was also covered under the rules of the free trade area, basic agricultural products would be dealt with in bilateral arrangements between the individual EFTA States. The original Convention was updated regularly and more broadly revised in 2001 to take account of economic and regulatory developments. This "Vaduz Convention" continues to govern intra-EFTA trade relations and provides the common backbone of EFTA trade policy.

Table 1: EFTA Membership 1960-2013

Member States	Accession	Withdrawal
Austria	1960	1995
Denmark	1960	1973
Finland*	1986	1995
Iceland	1970	
Liechtenstein	1991	
Norway	1960	
Portugal	1960	1986
Sweden	1960	1995
Switzerland	1960	
United Kingdom	1960	1973

* Associate member from 1961 to 1986.

Trade Relations with the European Union

Since the inception of EFTA, its Member States have strived for coherence in economic and trade relations with the European Economic Community (EEC) and its successors, the European Communities (EC) and the European Union (EU). By the late 1960s, having established a functioning free trade area, the EFTA States shifted their focus towards finding suitable arrangements with the EEC. This resulted in a series of bilateral free trade agreements between the individual EFTA States and the EEC, which entered into force in 1973 and provided for the gradual reduction and elimination of import duties on industrial goods. Virtually all such duties were eliminated by 1977, with remaining tariffs on certain "sensitive" products being dismantled by 1984. Between 1984 and 1989, the EFTA States and the EC concluded a number of additional agreements in trade-related areas, such as on standards and technical barriers to trade (TBT).

Collectively, these agreements provided the basis for closer and more substantial cooperation within Europe.

Economic integration increased substantially with the establishment in 1994 of the European Economic Area (EEA). Beyond the mere consolidation of bilateral trade links, the EEA Agreement extended significant areas of the EU's Internal Market to the participating EFTA States – today Iceland, Liechtenstein and Norway. For its part, Switzerland chose to pursue bilateral arrangements with the European Union by concluding sectoral agreements in a wide range of fields, including the movement of persons, transport and TBT. These arrangements have allowed Switzerland to participate to a considerable extent in the Internal Market without being part of the institutional framework governing the EEA.

Trade Relations with Third Countries

In addition to consolidating their relations with the EEC/EU, the EFTA States have established a successful third-country trade policy. Engagement with so-called "third countries" (i.e. partners outside EFTA and the European Union) was initiated as far back as 1967 when EFTA established a joint working group with former Yugoslavia, which by 1983 had evolved into a Joint EFTA-Yugoslavia Committee. The EFTA States as a group also negotiated an FTA with Spain, which entered into force in 1980 and expired in 1985 upon Spain's accession to the EEC.

Beyond these early initiatives, EFTA's third-country policy can be traced back to June 1990, when a decision was taken in Gothenburg to develop EFTA's own network of FTAs, in parallel to that of the EC. The initial impetus was to avoid discrimination vis-à-vis economic operators from the EC, which was working towards a free trade area with the former centrally-planned economies of Central and Eastern Europe. At first, the EFTA States entered into agreements with Poland, Romania, the Czech and Slovak Republics, Bulgaria and Hungary (1992-1993). In parallel, they followed the EC in concluding FTAs with Turkey (1991) and Israel (1992).

In 1995, the EFTA States decided to broaden the geographical scope of EFTA's free trade policy beyond the immediate confines of Europe to follow the

Launch of free trade negotiations with the customs union of Russia, Belarus and Kazakhstan, Geneva, November 2010.

European Union in the Euro-Mediterranean region. The first agreements concluded in that context were with Morocco in 1997 and with the Palestinian Authority in 1998. With Egypt, Jordan, Lebanon and Tunisia, EFTA signed joint declarations on cooperation (JDCs)[1], which subsequently developed into FTAs. Meanwhile, EFTA's network in Europe was expanding with the signing of FTAs with Estonia, Latvia, Lithuania and Slovenia.

The next phase in the evolution of EFTA's third-country relations began in the late 1990s. Facing a multiplication of bilateral and regional preferential trade agreements following the conclusion of the multilateral "Uruguay Round" and the establishment of the WTO in 1994, the EFTA States began to extend their free trade policy towards interested partners overseas. Since the start of its negotiations with Canada in 1998, EFTA has successfully concluded FTAs with a range of partners from the Americas, Asia and Africa. The principal driver of this global approach has been the interest in securing a competitive position for EFTA's economic operators on international markets. The traditional paradigm of securing a level playing field with the European Union has thus been augmented by new initiatives, which seek economic opportunities in the global marketplace.

Scope of the EFTA Free Trade Network

Economic Importance and Geographical Coverage

Trade plays an essential role for the economies of the EFTA States. In 2012, the combined value of merchandise trade of the four EFTA Member States stood at over USD 680 billion, while trade in commercial services was valued at USD 235 billion. Exports accounted for about 60% of these totals. Collectively, the EFTA States were the twelfth largest merchandise trader globally and were ranked sixth in commercial services trade (counting the European Union as one). They are also significant investors abroad. The EFTA States, therefore, have an important stake in developing and maintaining an extensive FTA network (see Table 2 on economic indicators, illustrating the importance of trade and investment in the EFTA States).

Table 2: Economic Indicators 2012: Merchandise Trade, Trade in Services and Investment (million USD)

	Iceland	Liechtenstein*	Norway	Switzerland	EFTA**
Exports: merchandise goods	5 063	n.a.	161 025	225 949	392 037
Imports: merchandise goods	4 771	n.a.	87 316	197 787	289 874
Exports: commercial services	3 031	n.a.	43 815	90 153	136 999
Imports: commercial services	2 758	n.a.	48 889	46 606	98 253
Total trade	15 623	n.a.	341 045	560 495	917 163
Total trade balance	565	n.a.	68 635	71 709	140 909
Trade to GDP ratio (2009-2011, as %)	103.3	n.a.	71.0	111.8	n.a.
Foreign Direct Investment (FDI) outward stock	10 178	n.a.	216 083	1 129 376	1 355 637
Foreign Direct Investment (FDI) inward stock	12 378	n.a.	191 103	665 596	869 077

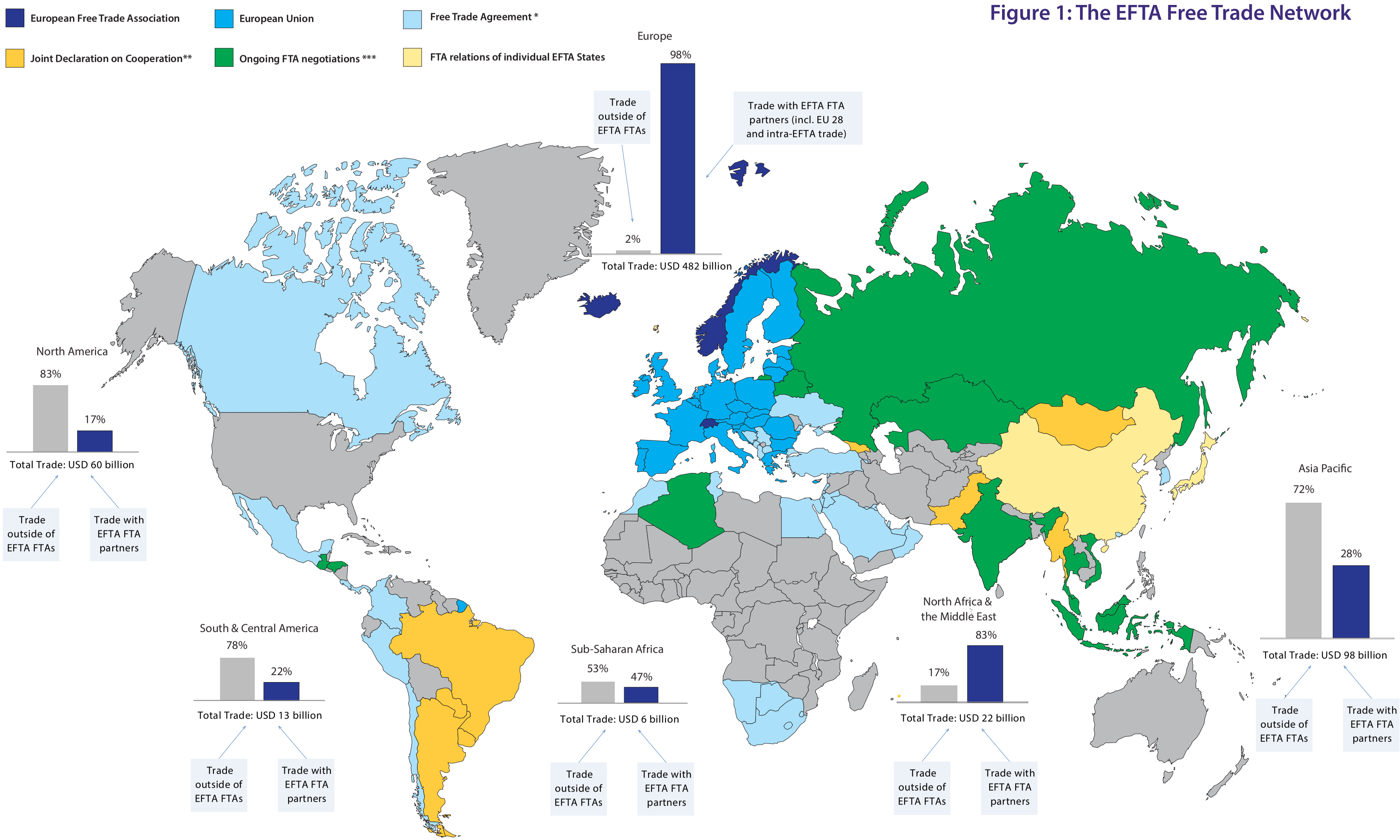
Source: WTO and UNCTAD (FDI), October 2013
n.a. = not available

* Merchandise trade and FDI data for Liechtenstein are included in the data for Switzerland. In 2012, Liechtenstein's direct exports and imports (i.e. excluding trade with Switzerland) were valued at USD 3 158 million and USD 1 737 million respectively.

** Trade figures include intra-EFTA trade.

1 Joint declarations on cooperation address cooperation on trade-related issues, such as customs matters, and may be a first step towards free trade relations with the partners concerned.

Figure 1: The EFTA Free Trade Network



* **EFTA Free Trade Agreements (25)**
Albania, Bosnia & Herzegovina, Canada, Central America, Chile, Colombia, Egypt, Gulf Cooperation Council (GCC), Hong Kong China, Israel, Jordan, Republic of Korea, Lebanon, Macedonia, Mexico, Montenegro, Morocco, Palestinian Authority, Peru, Serbia, Singapore, Southern African Customs Union (SACU), Tunisia, Turkey and Ukraine

** **Joint Declarations on Cooperation (6)**
Georgia, Mauritius, MERCOSUR (the Southern Common Market; comprising Argentina, Brazil, Paraguay and Uruguay), Mongolia, Myanmar and Pakistan

*** **Ongoing FTA negotiations**
Algeria, Guatemala, Honduras, India, Indonesia, Malaysia, Russia, Belarus, Kazakhstan, Thailand and Vietnam

Today, EFTA has one of the world's largest FTA networks. In addition to participating in the Internal Market of the European Union through the EEA Agreement and the bilateral Swiss-EU arrangements, the EFTA States currently maintain 25 third-country agreements with 35 partners worldwide. In addition, six JDCs are in force.

As the EFTA States are not obliged by the EFTA Convention to conclude preferential trade agreements as a group, they maintain the option of entering into bilateral third-country arrangements. In that sense, the EFTA network is supplemented by bilateral agreements between all the EFTA States and the Faroe Islands, which date back to the early 1990s, a bilateral FTA between Switzerland and Japan (in force since 2009), and the bilateral FTAs of Iceland and Switzerland with China (signed in 2013). It should also be noted that, as a result of the enlargement of the European Union in 2004, 2007 and 2013, the FTAs previously in place with the 13 respective acceding states were replaced by the relevant arrangements between the EFTA States and the European Union – the EEA Agreement for Iceland, Liechtenstein and Norway, and the bilateral treaties for Switzerland. A comprehensive list of EFTA's FTAs and JDCs with third countries is available in Annex I.

The geographical reach of the EFTA free trade network has expanded significantly over time (see Figure 1). With the addition of Montenegro in 2011, and Bosnia and Herzegovina in 2013, EFTA now has over 98% of merchandise trade with **European** partners covered under preferential trade agreements. As for the remaining 2%, EFTA is currently engaged in FTA negotiations with the customs union of Russia, Belarus and Kazakhstan, which accounts for the biggest part of the difference.

EFTA is currently focusing a great deal of its ongoing efforts on the dynamic **Asia-Pacific** region which, as a whole, represents EFTA's second largest international market (with USD 98 billion worth of merchandise trade). Here, EFTA is engaged in negotiations with India, Indonesia and Vietnam, while processes with Malaysia and Thailand have been launched or are pending resumption. In the **Americas**, EFTA has concluded FTAs with Mexico, Chile, Canada, Colombia, Peru, Costa Rica and Panama, which collectively account for about a fifth of merchandise trade with this part of the world. Negotiations are

Table 3: Evolution of EFTA Merchandise Trade (Imports and Exports), 2005-2012

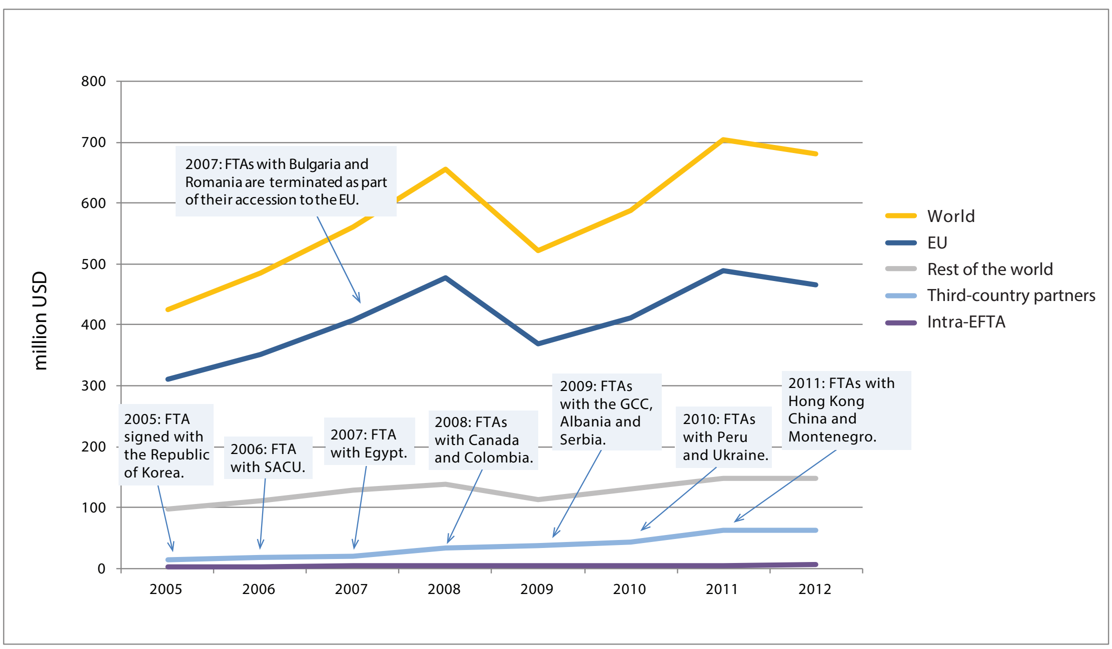


Table 4: Direction of EFTA Merchandise Trade (Imports and Exports), 2005-2012

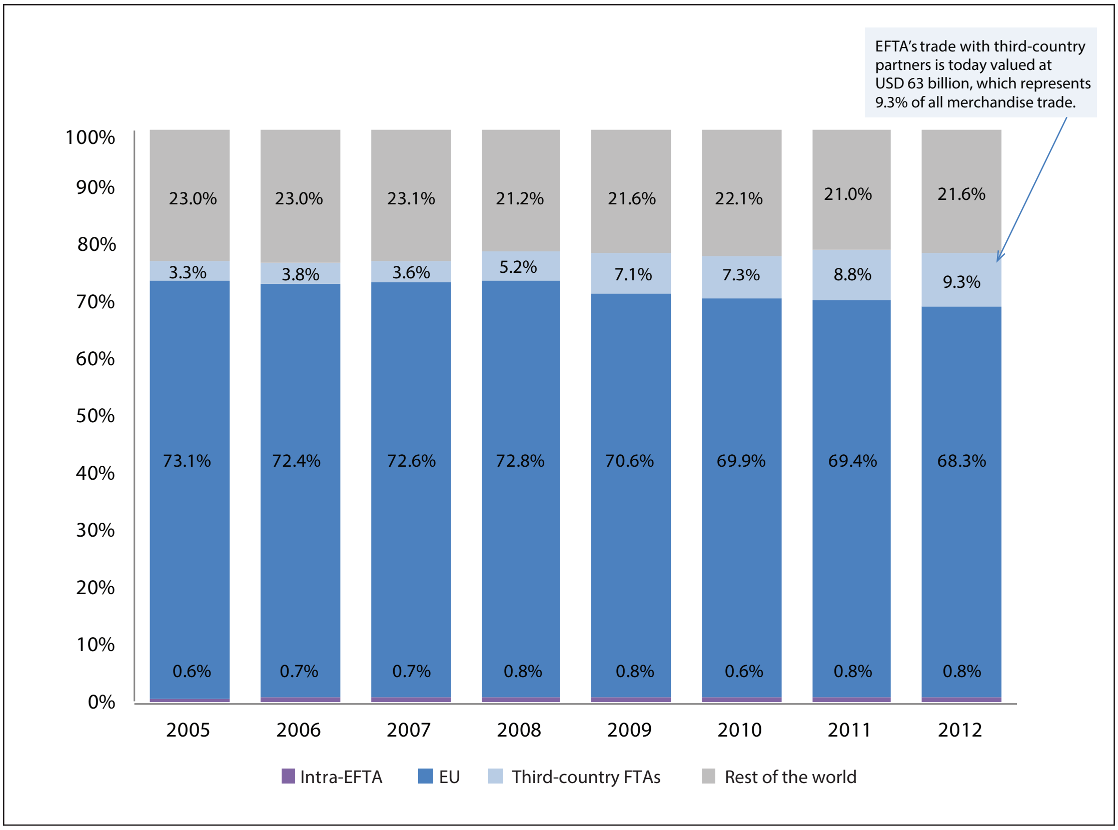
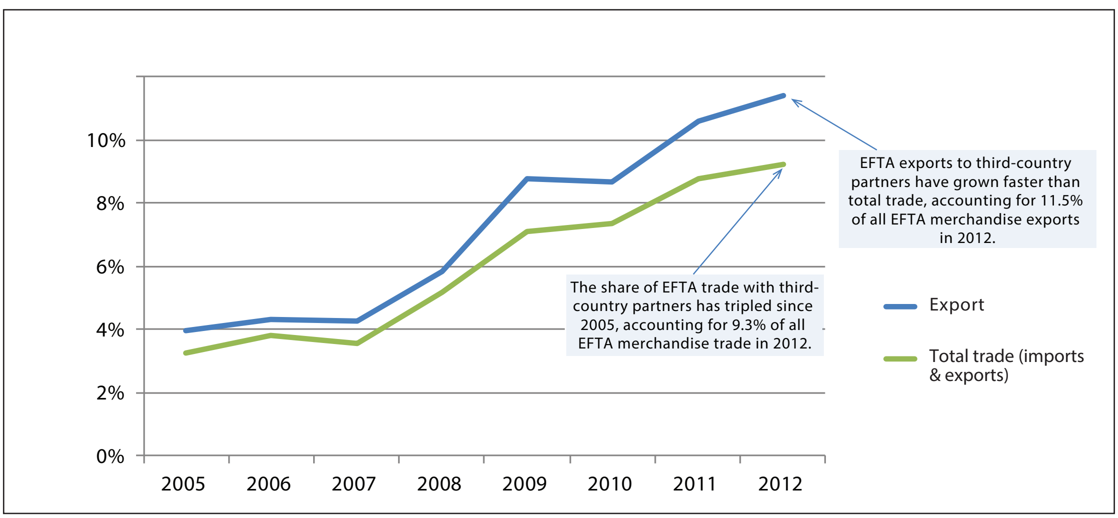


Table 5: The Growing Share of Third-Country FTAs in EFTA's Merchandise Trade, 2005-2012



underway with Guatemala and Honduras. In **North Africa and the Middle East**, over 80% of EFTA's merchandise trade is with partners that have concluded FTAs with EFTA. Negotiations with Algeria are on hold. In the rapidly growing **Sub-Saharan African** region, almost half of EFTA's merchandise trade is conducted under the FTA concluded with the members of the Southern African Customs Union (SACU).

The evolution of the patterns in EFTA's merchandise trade is illustrated in Tables 3 and 4. While the European Union remains by far EFTA's leading trading partner, its share in merchandise trade has dropped by five percentage points since 2005 (to 68.3% in 2012). Meanwhile, the proportion of third-country FTA partners has continued to grow. Today, trade with third-country FTA partners accounts for 9.3% of overall EFTA merchandise trade and is worth some USD 63 billion, an almost threefold increase since 2005. This growth reflects not only the steady addition of new preferential agreements, but also the trade-creation effects of liberalisation measures implemented through FTAs. For EFTA, this trade expansion has been, to a large extent, export-driven, as evidenced by the strong growth of exports to third countries which has outpaced the growth in total trade (see Table 5). Annex II provides a comprehensive list of all free trade partners of the EFTA States.

Characteristics of EFTA Free Trade Agreements

EFTA free trade agreements typically foresee the elimination of import duties on industrial goods, including fish and other marine products, and provide for tariff concessions on processed agricultural products and selected basic agricultural products. While, in principle, EFTA grants duty-free access for so-called "processed agricultural products" (e.g. chocolate and soup), certain measures are maintained to compensate for higher costs of raw materials used by the processing industries of the EFTA States. Concessions on basic agricultural products (e.g. fruit and meat) have traditionally been dealt with in bilateral agreements concluded between the individual EFTA States and partner countries, which form an integral part of the FTAs. All EFTA free trade agreements contain rules of origin, which establish the extent to which products may contain imported materials without losing their preferential status under the agreements.

In addition to these elements, the "first generation" of EFTA free trade agreements (concluded mainly in the 1990s with partners in the Euro-Mediterranean region) typically feature provisions on sanitary and phytosanitary (SPS) measures and TBT, trade remedies (e.g. safeguard measures) and the protection of intellectual property rights. Rules on competition aim to ensure that trade liberalisation under the FTA is not hampered by business practices that restrict or distort competition.

A "second generation" of EFTA free trade agreements has added substantive rules and commitments on services, investment and/or public procurement, thereby responding more broadly to opportunities and challenges faced by businesses operating in today's globalised economic environment. Building on the General Agreement on Trade in Services (GATS) of the WTO, these agreements provide for the further liberalisation of trade in services through sector-specific commitments. With respect to investment, the focus lies on ensuring non-discriminatory conditions for the establishment of companies, subject to specific reservations. Bilateral investment treaties of individual EFTA States may complement that framework. FTAs containing comprehensive provisions on government procurement foresee access to procurement markets on the basis of reciprocity, non-discrimination and transparency, setting out the covered government entities. Increasingly, EFTA has also begun to include disciplines on trade facilitation, which are aimed at simplifying and accelerating the clearance of traded goods.

Since 2010, in what may be called a "third generation" of FTAs, EFTA has begun to systematically introduce model provisions on sustainable development in its negotiating processes and reviews of existing agreements. These address environmental and labour standards insofar as they relate to trade and investment. FTAs containing such provisions have since been concluded with Hong Kong China, Montenegro, Bosnia and Herzegovina, and the Central American States of Costa Rica and Panama. Moreover, provisions on technical cooperation seeking to strengthen the capacity of developing partner countries to implement and benefit from FTAs are found in an increasing number of EFTA free trade agreements.

Finally, all EFTA free trade agreements contain institutional and other horizontal provisions, notably establishing a joint committee to administer the FTA, as well as mechanisms for the settlement of possible disputes between the parties, focusing on consultations but, in all recent agreements, also foreseeing the possibility of resorting to an arbitral tribunal.

EFTA's Approach to Free Trade Negotiations and the Implementation of FTAs

By forming a free trade area, rather than a customs union, among themselves, the individual EFTA States have maintained authority over the management of their external trade policy. When it comes to negotiating FTAs with third countries, however, they have so far consistently chosen to act as a group, thereby combining their economic and political weight. Accordingly, the EFTA States have developed common approaches and positions, and internal coordination continues to play an important role in preparing and conducting negotiations. In each negotiating process, one of the chief negotiators of the four EFTA States is designated as the EFTA spokesperson, and the same applies for the expert groups negotiating the different parts of an FTA. Where national regulatory frameworks and interests may differ, such as in services, investment and government procurement, country-specific commitments are taken. Bilateral solutions are typically negotiated for basic agricultural products.

Completed FTAs are signed and ratified by each Member State. The EFTA Secretariat, through the Trade Relations Division, fulfils a coordination function in providing substantive and logistical support to Member States in respect of the preparation, negotiation and maintenance of FTAs.

With a view to also promoting preferential trade relations with developing economies, EFTA has avoided applying a "one-size-fits-all" approach, but seeks to adapt to the varied interests of its negotiating partners. For instance, while the EFTA States would offer immediate preferential access to their markets, developing-country partners could benefit from

Negotiating round between EFTA and the Central American States of Costa Rica, Guatemala, Honduras and Panama, Geneva, March 2012.

longer phase-in periods to implement market access commitments. Technical cooperation and capacity-building, as referred to above, also play an important role in some negotiations.

The operation of EFTA free trade agreements is overseen by joint committees, composed of representatives of the EFTA States and their respective partner. These committees meet regularly to evaluate the functioning of the FTA, as well as the need for any updates or additions. Since 2012, EFTA's activities with existing partners have been assessed in line with a new general approach which puts emphasis on the comprehensive further development of FTAs, such as with regard to market access commitments or chapters on sustainable development.

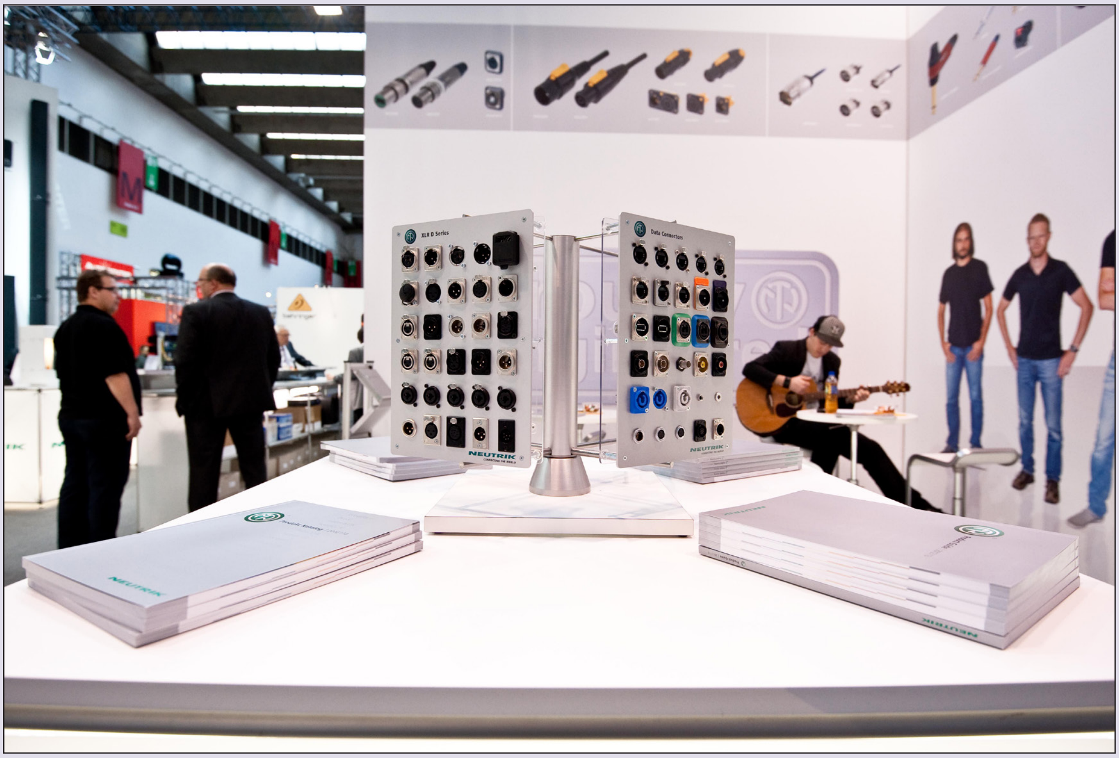
EFTA notifies the WTO's Committee on Regional Trade Agreements on a regular basis of all relevant developments with regard to its free trade relations.

Conclusion

EFTA's free trade interests have been pursued pragmatically. Building on the EFTA Convention, the EFTA States' close ties with the European Union and the multilateral framework of the World Trade Organization, one of the world's largest networks of preferential trade agreements has emerged over the past two decades. EFTA's trade relations with third countries continue to evolve, with a number of trade negotiations currently underway and existing agreements being revised and updated.

BUSINESS PERSPECTIVES: Neutrik, Liechtenstein

The Sound of Music



Based in Liechtenstein, Neutrik AG is a company manufacturing professional connectors and connector systems for the entertainment industry. Neutrik was founded in 1975 and its products can be found on stage, in stadiums and in the studio.

"In view of the company's export share of 99%, Neutrik AG, unsurprisingly, benefits from the free trade agreements that EFTA has concluded with many countries worldwide. This applies in particular to non-European states. Owing to the positive development of markets in the Far East, the FTA with Hong Kong China is of particular importance to our company, given the pivotal role of Hong Kong for Chinese contract manufacturers in South China. The FTA with the Republic of Korea has created better general conditions for us in what is still a difficult market, where any reduction of import obstacles contributes towards the competitiveness of foreign suppliers. The bilateral agreement recently concluded by Switzerland with the People's Republic of China will be helpful in consolidating our position in the "Middle Kingdom".

It is a pity that, to date, no FTA exists with our largest market – the United States. Undoubtedly, the conclusion of an FTA with this important country would be desirable in order to prevent our competitive position from deteriorating further after serious drawbacks for us caused by currency issues", says Werner Bachmann, CEO of Neutrik Group.

PART II:
The Inside View – Interviews with Chief Negotiators

The Value of the EFTA "Free Trade Mark"

"The EFTA States punch far above their weight in terms of world trade."

Martin Eyjólfsson, Iceland
Ambassador, Permanent Representative to the International Organisations in Geneva

EFTA's third-country policy has evolved over the years – from mirroring the European Union's approach to external economic relations in the 1990s to taking a more proactive and ambitious approach with partners worldwide. In what ways have EFTA's free trade agreements contributed to achieving Iceland's economic goals?

As a small economy, Iceland is highly dependent on international trade and favourable access to foreign markets. We have a wide network of international agreements that Icelandic companies rely on heavily in their day-to-day operations. Iceland's trade policy rests on three pillars: The EEA Agreement, WTO membership and trade agreements in the broadest sense. Our free trade agreements form the backbone of the last pillar, which also includes an expanding network of double taxation, air services and investment protection agreements. As trade negotiators, our job is to provide Icelandic companies with open and predictable market access conditions around the world. Iceland's trade policy thus contributes to job creation, economic growth and opportunities for our companies and citizens alike.

Let's consider, for example, the ongoing EFTA negotiations with our Eastern European partners of the customs union of Russia, Belarus and Kazakhstan, which will create considerably better access conditions for our leading fishery exports in important markets. I could also refer to a newly updated Air Services Agreement with Canada which enabled Icelandair not only to double the number of its destinations in that country but also to increase flight frequency to current destinations. This created valuable jobs in Iceland and increased tourist flow between the two countries. I should also mention the recently concluded FTA between Iceland and China. This agreement will give Icelandic companies a competitive advantage since Iceland was the first European country to sign an FTA with China.

The EFTA States have consistently given preference to negotiating FTAs with third countries as a group. What have been the advantages of this approach for Iceland?

The EFTA States punch far above their weight in terms of world trade, yet we are still small. The simple truth is that we are more attractive to potential partners as a group than as individual states. EFTA trade policy is a success story, and our track record of far reaching and comprehensive FTAs – in five continents – speaks for itself.

Although Iceland has also concluded FTAs on a bilateral basis, most recently with China, it is my personal belief that Iceland's opportunities are considerably increased when attached to the EFTA "Free Trade Mark".

We should not forget that our favourable access to the European Union – by far our most important market – can be attributed to EFTA cooperation. Each individual EFTA State could never have attained similar negotiating results with the EU as the EFTA bloc did in the early 1990s. The EEA Agreement is probably the biggest success story of EFTA.

EFTA has a "first generation" FTA with Canada that essentially focuses on trade in goods, while with the United States no preferential trade negotiations have been conducted to date. Against this background, what are the main future challenges for EFTA with North American partners from an Icelandic perspective?

I think it is safe to say that we will intensify our trade relations with Canada – most notably in the field of services. Formal negotiations could be launched in a relatively ambitious timeframe. At the same time, all the EFTA States and Canada are taking part in the so-called "TISA" (Trade in Services Agreement) negotiations in the context of the World Trade Organization. While you could say that we are hedging our bets, we may succeed on both fronts.

Embarking on free trade negotiations with the United States has been more complicated and difficult, as there are many factors to consider. However, some of these might change or are already changing. The Transatlantic Trade and Investment Partnership (TTIP) negotiations between the European Union and the United States could be a game-changer in the longer term. Likewise, the inability of the WTO to show progress in the Doha Round could make an EFTA bilateral approach with the United States a more pressing issue.

One of the most challenging issues connected with possible free trade negotiations between the EFTA States and the United States would be the sensitive area of agriculture. We will, however, cross that bridge when the time comes.

Preferential Trade Arrangements: What is at Stake?

"…on trade topics currently outside the realm of the WTO, bilateral arrangements can create their own set of rules…"

Mario Matus, Chile
Ambassador to the WTO, WIPO and UNCTAD

Between 1997 and 2004, bilateral merchandise trade between Chile and the EFTA States grew at an average annual rate of 2.4% (Chilean exports to EFTA: 2.7%). Since the entry into force of the EFTA-Chile Free Trade Agreement in December 2004, annual growth has averaged 13.2% (Chilean exports to EFTA: 10.3%). Is this development in line with Chile's experience of preferential trade arrangements with other partner countries? What, in your view, are the main contributing factors to the success of these agreements?

That is indeed the case. Once a treaty enters into force, the pattern is one of significant growth in bilateral trade. In my opinion, there are two reasons for such success. The first factor is the elimination of or substantial reduction in customs tariffs. This creates immediate comparative advantages for exports entering the other party's market. The second element is awareness. Due to media coverage, the negotiation process catches the attention of people who would otherwise not have been aware of it. In other words, a country becomes "visible" to a broader audience. Likewise, the export industry – consulted throughout the negotiation process – would update the commercial information available on the country or economy in question.

Chile is an active participant in several inter-regional economic projects, such as the Trans-Pacific Partnership and the Pacific Alliance. Are these emerging regional blocs likely to establish new yardsticks and replace pre-existing bilateral FTAs?

Overall, the answer is yes, but the degree will vary from one topic to another. On market access, for instance, if the new regional agreements deepen the liberalisation process or advance existing bilateral rules, then they shall prevail. The same logic applies to trade disciplines. If the result is deeper, more sophisticated and precise, then the plurilateral regional treaty shall prevail. Nevertheless, due to the number and diversity of participants, inter-regional agreements are naturally more complex. Thus, it is likely that the substitution effect (one treaty over the others) might be delayed, because the new agreement would have a slower tariff reduction/elimination schedule. For example, when the North American Free Trade Agreement (NAFTA) was negotiated, a previous bilateral agreement between the United States and Canada continued to be partially enforced.

Like EFTA, Chile has developed an extensive worldwide network of FTAs, while remaining committed to the WTO's multilateral trade agenda. What, from a Chilean perspective, are the advantages and limitations of bilateral/regional trade liberalisation when compared with the multilateral approach?

Bilateral processes always go beyond the WTO. The clearest example is market access negotiations, where bilateral agreements tend to achieve the total elimination of customs tariffs. On the trade disciplines side, the situation is more complex. Indeed, under existing WTO rules, bilateral treaties cannot go too far. At most they can provide additional precision and clarity. Nevertheless, on trade topics currently outside the realm of the WTO, bilateral arrangements can create their own set of rules without much restraint. For instance on investments, competition policy and standards, the space for innovation is open. That being said, there are areas that cannot be advanced bilaterally, simply because the implications are multilateral. Such is the case with the elimination of export subsidies in agriculture, or the substantial reduction of financial support for farming. Moreover, from a systemic perspective, an increasingly globalised and harmonised world cannot operate properly without universal rules. In our time at least, bilateral agreements will never be able to replace the multilateral trading system.

BUSINESS PERSPECTIVES: Schindler Management, Switzerland

To the Top

Hong Kong's tallest building, the 118-storey high International Commerce Centre, is served by 81 Schindler lifts.

Founded in Switzerland in 1874, the Schindler Group is a leading global provider of lifts, escalators and related services. Its innovative and environmentally friendly access and transit-management systems make an important contribution to mobility in urban societies. Schindler mobility solutions move one billion people every day all over the world. In 2012, the Schindler Group generated sales of more than CHF 8.2 billion. It has 47 000 employees in more than 100 countries.

"The global business model of Schindler is based on open doors to local markets. Thus, free trade agreements are very important to our business. The dynamics will even increase the importance of FTAs: The more Schindler invests in local markets to provide products and services, the more important market access becomes.

For Schindler, FTAs have two main benefits: They reduce barriers to entry in markets and they increase legal security. In addition, they improve contacts between the ministries involved. This allows for faster solutions to specific issues, which has a positive effect on the economies of both sides. In addition to tariff reductions, the scope of modern FTAs encompasses intellectual property, access to service markets, investment and government procurement. These non-tariff parts of FTAs make concluding international transactions considerably easier.

One important aspect is regional integration. Schindler has many manufacturing locations on all continents. EFTA free trade agreements and regional trade agreements aid the expansion of regional production facilities and competence centres as parts of our global supply chain. Finally, FTAs can facilitate the movement of employees, e.g. for training, engineering or management functions", says Christoph Lindenmeyer, Chairman of Schindler Management AG.

Capturing the Full Potential

"…'updating' older agreements will rapidly lead to the negotiation of fully-fledged, modern FTAs."

Sveinung Røren, Norway
Director, Ministry of Trade and Industry, Trade Policy Department

The EFTA States are engaged in free trade negotiations with an increasingly diverse set of partners, at various levels of economic development, and with distinctive sensitivities and interests. In what ways may EFTA adjust its approach to such evolving needs and challenges?

EFTA has a history of being pragmatic and flexible in its approach to free trade partners at various levels of economic development, while maintaining its ambition to conclude free trade agreements that are as comprehensive as possible. This comprehensive approach is a reflection of the evolution of modern trade, which is characterised by the close interaction between trade in goods and services, investment and intellectual property rights.

With this in mind, EFTA needs to adapt to the different needs of countries at various levels of economic development. In the areas of services, government procurement and investment, partners undertake FTA commitments that largely correspond to the level of domestic regulation at the time the agreement is signed. This implies that, for some partners, the level of liberalisation bound under the FTA may remain far below the level offered by the EFTA countries. However, the domestic regulations of some emerging economy partners may develop rapidly towards an entirely new and "modern" regime, compared with the relatively low level committed in the FTA. Maintaining a certain asymmetry in commitments between partners at different levels of development is, of course, understandable. The challenge therefore is to capture the rapidly evolving regulatory regimes of some partner countries by applying a more dynamic approach to FTA commitments.

Several of EFTA's free trade agreements have now been in force for a decade or more and/or have a limited substantive scope, e.g. not yet covering areas such as services and investment, government procurement or sustainable development. What is the case for upgrading these agreements, and what are the main challenges linked to such an endeavour?

The maintenance of existing agreements is becoming an increasingly important part of EFTA's work. The joint committees under the corresponding FTAs usually meet on a biannual basis and provide a forum for updating and further developing EFTA's current 25 agreements with 35 different countries.

Some of the agreements originate in the early nineties. Their scope is far less relevant to businesses, in both EFTA and partner countries, than the newer, more comprehensive agreements. Even some of these recent agreements do not always have the full and comprehensive scope that we normally seek to obtain. Some would argue that trade with these partners has therefore not been developed to its full potential.

EFTA has a busy agenda negotiating new FTAs with several partners simultaneously. With an increasing number of possible new partners in the pipeline, the capacity to update/renegotiate older FTAs also comes into question. Moreover, the structure and scope of our FTAs has undergone a transformation – from FTAs that mainly focus on trade in goods to FTAs encompassing virtually all relevant aspects of modern trade. This implies that "updating" older agreements will rapidly lead to the negotiation of fully-fledged, modern FTAs. If our partners are equally motivated to give priority to such modernisation, the prospects of success are good.

How does Norway involve domestic stakeholders when preparing for and conducting negotiations with free trade partners?

In Norway, the work carried out in relation to FTA negotiations has broad support in Parliament, the

business community and the business associations, as well as among the trade unions. Before every EFTA Ministerial meeting, the Minister of Trade and Industry meets with the Norwegian members of EFTA's advisory bodies – the Parliamentary Committee and the Consultative Committee. Regular meetings regarding ongoing and upcoming negotiations are also held between the Minister of Trade and Industry and all interested stakeholders. Consultations are conducted with the business community in connection with the various negotiations to ensure that Norwegian export interests are covered. In addition, stakeholders are encouraged to give feedback to the Ministry of Trade and Industry concerning matters related to Norway's FTAs through the Ministry's webpage.

Strengthening Competitiveness

"FTAs are an important instrument for maintaining and strengthening Switzerland's competitiveness and prosperity."

Marie-Gabrielle Ineichen-Fleisch, Switzerland
State Secretary and Director of the State Secretariat for Economic Affairs (SECO)

What is the importance of EFTA free trade agreements for Swiss business operators and consumers? Do they provide a satisfactory alternative to progress under the multilateral framework of the World Trade Organization?

Switzerland's free trade policy is aimed at improving the general framework for conducting economic relations with relevant economic partners and at providing Swiss companies with legally secure, unobstructed, predictable and non-discriminatory market access.

Switzerland is closely integrated in the world economy. As the country's economic structure is outward-oriented, its prosperity largely depends on international trade in goods and services as well as on cross-border investment activities. The continuous improvement of market access conditions therefore represents a core objective of Swiss foreign economic policy. The best way to achieve this objective is through the multilateral framework of the WTO. Nevertheless, most countries have started to enter into bilateral/plurilateral, regional or supra-regional FTAs. This is seen as a way to complement multilateral trade liberalisation efforts, which are currently facing difficulties.

For Switzerland, FTAs represent an opportunity for providing business operators with better market access at conditions equivalent to those enjoyed by their most important foreign competitors (such as operators from the European Union, the United States and Japan). In cases where others do not have FTAs yet, our agreements provide a competitive advantage to Swiss-based operators and contribute to the diversification of our foreign economic relations. For their part, Swiss consumers and producers benefit from economic growth in the Swiss marketplace and enjoy a greater variety of higher-quality goods and services at lower prices. FTAs are therefore an important instrument for maintaining and strengthening Switzerland's competitiveness and prosperity.

The EFTA Convention does not oblige the EFTA States to negotiate and conclude FTAs as a group. While Switzerland has concluded 36 FTAs under the EFTA umbrella (12 of which with countries that have in the meantime become members of the European Union), it recently entered into bilateral FTAs with Japan and China. For what reasons does Switzerland seek preferential trade relations through EFTA, and why was a different route chosen with Japan and China?

Switzerland favours the conclusion of preferential trade agreements within the EFTA framework. The EFTA States are in many respects like-minded and carry more economic and political weight as a group, making them more attractive to trading partners. Nevertheless, Switzerland and the other EFTA States also retain the possibility of concluding FTAs bilaterally.

Switzerland and Japan initiated regular bilateral economic consultations in 1995, in which both countries explored the possibility of deepening economic relations through an FTA. Negotiations with EFTA as a group were considered, but ruled out early on by Japan due to differences between Japan's trade structure and that of individual EFTA States.

As for China, while the EFTA States were willing to negotiate as a group, China made it clear from the outset that it would prefer individual bilateral negotiations with each EFTA State. So far, Iceland and Switzerland have signed bilateral FTAs with China (in April and July 2013, respectively).

What are the main challenges in negotiating FTAs with a large developing partner country such as India?

The offensive and defensive interests of large emerging economies and the highly developed economies of the EFTA countries may differ substantially, despite the existence of economic complementarities. Furthermore, because of the size of their domestic markets, large emerging economies are less dependent on opportunities abroad. At the same time, given their growth potential, they are well aware of their attractiveness as FTA partners.

Switzerland's main offensive interests are in the areas of trade in industrial goods, trade in services, intellectual property rights, government procurement, and trade and sustainable development. Emerging economies may have both offensive and defensive interests in these areas and are often not ready to open up sectors in which they wish to develop their own industries first.

Some prospective partners do not consider human rights, as well as labour and environmental standards, as trade-related issues, and fear the existence of a hidden protectionist agenda. The latter is certainly not a motivation for the EFTA States. However, given the absence of international models for incorporating these issues into trade agreements, a lot of work is needed in order to convince partners of our approach.

These are some of the challenges that Switzerland and the other EFTA States have to face in expanding our FTA network to important emerging economies.

BUSINESS PERSPECTIVES: Ísfélag Vestmannaeyja, Iceland

Iceland's Oldest Company

Heimaey VE 1, owned by Ísfélag Vestmannaeyja. Built in Chile and designed in Norway, this new generation pelagic vessel is a symbol of cooperation between EFTA free trade partners.

Iceland's oldest company, Ísfélag Vestmannaeyja, was established in 1901. Today, it is one of the country's largest seafood companies. It has two factories in the Westman Islands off the south coast of Iceland and two in Thorshöfn in the north eastern part of the country, with operations divided into three main categories: fishing, fish processing, and fish meal and fish oil production. The company's main markets are the European Union, Eastern Europe and Japan.

"Our company, along with other Icelandic seafood companies, has benefited greatly from Iceland's participation in EFTA. In the 1970s, after Iceland became a member of EFTA, 60% of the customs tariffs imposed on our fishery products were wiped out when exported to other EFTA States and the European Union. When Iceland joined the European Economic Area in 1994, only 10% of our products were left with any tariffs. Today, we follow with keen interest EFTA's free trade negotiations with partners from Eastern Europe, another important market for us. It is our hope that a free trade agreement with Russia, Belarus and Kazakhstan will bring our export duties to zero, thereby further increasing our competitive edge in these countries", says Stefán Friðriksson, CEO of Ísfélag Vestmannaeyja.

The Benefits of Cooperation

"…through its preferential trade agreements, Indonesia aims to acquire benefits including job-generating investments and cooperation with regard to capacity building."

Soemadi Brotodiningrat, Indonesia Ambassador

Indonesia has a young and rapidly growing population of around 250 million. In what ways do you think preferential trade agreements may contribute to meeting the economic and social challenges faced by your country in the coming years?

While a fast-growing population with a steadily increasing income creates a dynamic and attractive market, it also poses challenges in terms of job creation and the development of human resources. Therefore, through its preferential trade agreements, Indonesia aims to acquire benefits including job-generating investments and cooperation with regard to capacity building.

The economies of Indonesia and the EFTA States are different in several respects, such as in terms of their size, growth rate and level of development. What, in your view, are the main advantages and challenges of such differences when it comes to negotiating preferential trade agreements?

The differences between the economies of Indonesia and the EFTA States do indeed offer clear and advantageous complementarities that should be exploited effectively. At the same time, in order to ensure mutual benefits, this asymmetrical pairing requires unconventional and innovative approaches, in which even the notion of reciprocity should be addressed in a particular manner.

In your negotiations with EFTA, Indonesia has to work with four partner countries. What, in your experience, are the particular dynamics and challenges involved with such a situation?

As a matter of fact, it is not a completely new situation for us. Indonesia has had some similar experiences from the opposite side of the table, namely with the "ASEAN plus one" negotiating format. Complications may arise if a common policy does not exist in a particular area, such as agricultural policy, as is the case for the EFTA States. In such scenarios, a solution has to be found that integrates sub-agreements, negotiated individually with each EFTA Member State, into the main agreement between Indonesia and EFTA.

"The differences between the economies of Indonesia and the EFTA States offer clear and advantageous complementarities that should be exploited effectively."

Securing Global Access

"Sub-Saharan Africa, a region comprising more than half of the world's ten fastest-growing economies of the coming decade, is certainly of interest to EFTA."

Norbert Frick, Liechtenstein
Ambassador to the United Nations and other International Organisations in Geneva

Liechtenstein's industries have a global customer base in specialised markets. How has EFTA's third-country policy contributed to promoting domestic business interests?

One of Liechtenstein's key concerns is to ensure the best possible framework conditions for businesses based in our country. In our view, a liberalised, non-discriminatory market access regime – together with national treatment guarantees – forms a very important component of these framework conditions.

The industrial sector is the largest contributor to Liechtenstein's gross domestic product (GDP). While more than half of the country's industrial production is exported to Europe, a considerable part – over 40% – is destined for third-country markets. Regular contact with individual companies and the Chamber of Commerce and Industry reveals that EFTA's third-country free trade agreements are highly valued and considered a necessity. As the private sector provides input and follows EFTA's third-country policy closely, domestic business interests are undoubtedly met.

Apart from a strong industrial base, the area of financial services is important for Liechtenstein. How can EFTA free trade agreements strengthen the position of financial service providers on third-country markets?

Liechtenstein's services sector is indeed very much specialised in financial services, notably banking, wealth management and insurance. Larger institutions operate globally and seek to obtain a number of advantages through the conclusion of FTAs. The main features of interest are improved market access and/or establishment possibilities, national treatment guarantees, enhanced legal security and the possibility to transfer management personnel. EFTA's free trade agreements should contain ambitious provisions to secure these requirements.

Sub-Saharan Africa is emerging as one of the most economically dynamic regions in the world. What perspectives do you see for EFTA to further engage with partner countries in that region?

A region comprising more than half of the world's ten fastest-growing economies of the coming decade is certainly of interest to EFTA. While EFTA's overall share of trade with Sub-Saharan Africa is still low, economic exchanges with the region are increasing. Similar observations can be made in regard of investments. Another criterion for determining EFTA's priorities is the existence of, or potential for, discrimination compared to its main competitors. Therefore, EFTA has to follow relevant developments very closely and be prepared to deepen its trade relations with partners in Sub-Saharan Africa at the right moment.

BUSINESS PERSPECTIVES: Projectiondesign, Norway

Through the Lens

Projectiondesign, headquartered in Fredrikstad, Norway, is a specialised manufacturer of high performance projectors used in a number of professional applications such as control room monitoring, surveillance, training, simulation and scientific visualisation. Projectiondesign sells its products worldwide. The company employs 150 people and has a turnover of over EUR 55 million.

"We see our business potential developing into new markets like Latin America and emerging economies such as Russia, India and China. High import duties effectively limit our ability to expand, and the only two alternatives are to establish local manufacturing or to gain market access through free trade agreements. For Projectiondesign, a mid-sized company, local manufacturing is too capital intensive and not a realistic alternative. FTAs provide the solution for our access to these markets", says Jørn Eriksen, CEO of Projectiondesign.

PART III:
Policies and Politics – the Voice of Parliamentarians and Social Partners

Reconciling Economic, Social and Environmental Objectives

"Of particular relevance to parliamentarians is the coherent application of economic policies with social and environmental objectives."

Kathy Riklin
Member of the Swiss Parliament (National Councillor)
Chairperson of the EFTA Parliamentary Committee

Flexibility and pragmatism – these traditional EFTA values are also shared by the EFTA Parliamentary Committee, an advisory body in which Members of Parliament from Iceland, Liechtenstein, Norway and Switzerland convene at least twice a year. In the past, discussions in this forum tended to focus on intra-EFTA issues and European affairs. Over recent years, however, the management of EFTA's worldwide network of free trade agreements has begun to feature more prominently on the agenda.

The Parliamentary Committee is informed regularly about ongoing and planned free trade negotiations. Besides seeking general information about the political and economic situation of EFTA's partner countries, the Parliamentary Committee also attaches importance to issues relating to sustainable development. Of particular relevance to parliamentarians is the coherent application of economic policies with social and environmental objectives.

In recent EFTA free trade agreements, the principle of sustainability has been reflected in the preamble as well as in a dedicated chapter on trade and sustainable development. The preamble emphasises and reaffirms the parties' commitment to democracy, the rule of law and human rights, as set out in the Charter of the United Nations and the Universal Declaration of Human Rights, as well as respect for the fundamental rights and principles at work, pursuant to the relevant conventions of the International Labour Organization (ILO). In line with WTO rules, EFTA free trade agreements also explicitly provide for the possibility to take the measures necessary to protect human, animal or plant life or health, or relating to the conservation of exhaustible natural resources.

The Parliamentary Committee is conscious of the importance of international competitiveness and supports EFTA in its free trade negotiations. Once a year, a delegation of the Parliamentary Committee pays a visit to a prospective FTA partner country. As the tasks of national parliaments continue to evolve, in both a European and global context, conducting activities of this type is of growing importance. Signed EFTA free trade agreements are subject to approval by national legislatures. In that perspective, it is essential that contacts at parliamentary level are established and FTA-related questions are discussed in an open and transparent manner. In recent years, visits by the EFTA Parliamentary Committee have taken place to Albania, Canada, Costa Rica, India, Indonesia, Panama, Russia, Serbia and Vietnam.

As progress under the WTO's Doha Development Agenda has stalled, the number of FTAs concluded between individual states has risen. Against this background, EFTA – with its wealth of knowledge, flexibility, pragmatism and highly experienced staff – can only increase in importance.

Visit by the EFTA Parliamentary Committee to Vietnam, 2011.

The Importance of the Long-Term View

"To thrive on the international scene, businesses need a predictable regulatory framework..."

Thomas Angell
Director, Virke – the Enterprise Federation of Norway
Chairperson of the EFTA Consultative Committee

There is no doubt that foreign trade pays off. It is a fundamental prerequisite for economic growth and increased wellbeing. This widely recognised fact has been validated by economic theory and practical experience. It also underpins the creation and continued existence of EFTA.

These views are fully shared by the EFTA Consultative Committee. This advisory body includes representatives of labour unions and business associations from the four EFTA countries. Its members are particularly well placed to assess the relevance of EFTA free trade agreements to EFTA businesses, as well as the contribution of those agreements to the living standards of the countries' citizens.

To thrive on the international scene, businesses need a predictable regulatory framework, rather than a power play environment. The World Trade Organization, with its multilaterally agreed set of rules, provides the most important such framework. For small open economies, such as the EFTA countries, a well functioning multilateral system is a necessity. To this date, however, the further dismantling of trade barriers through the WTO Doha Round has proved to be impossible. This gives the EFTA States added impetus to broaden and deepen their access to global markets for goods, services and investment via the FTA route.

At the same time, it is essential for EFTA to maintain a competitive position on world markets vis-à-vis businesses from the European Union. As the European Union is negotiating with a large number of FTA partners, including the United States, EFTA must continue to monitor developments carefully so that the competitive position of companies from the EFTA States is not weakened.

While improving market access for export-oriented businesses is often the motivation for negotiating FTAs, it should not be forgotten that, for importers, FTAs can be equally important. These agreements take the long view in providing for a predictable and stable trading platform. For many importers, this is a prerequisite for entering into procurement agreements and long-term supply contracts.

The long-term view also plays a key role in investment decisions. By their nature, investments tend to be long term and may require a comprehensive set of agreements creating a predictable business framework. During the early phases of new business activity in a host country, and before the economic benefits of the investments become apparent, projects are often exposed to political risks. In this context, bilateral investment treaties can offer an additional safety net, providing protection throughout the life of the project. The conclusion of trade agreements through EFTA ought therefore to be followed up by further work on the promotion and protection of investments.

The EFTA States are placing increased focus on working conditions and workers' rights in prospective partner countries. From a Norwegian perspective, Virke, the Enterprise Federation of Norway, agrees with this approach and has given its support to including clearer and more binding formulations in EFTA free trade agreements with regard to social and environmental standards. This is very much in line with the conclusions of the 2010 EFTA Ministerial meeting in Reykjavik.

Concerning the choice of future FTA partners, it is worth noting that seven out of ten of the world's fastest-growing economies are now in Africa. More and more businesses from the EFTA countries are positioning themselves in the African markets. The fact that EFTA is considering pursuing FTAs with countries from this region is both relevant and important.

BUSINESS PERSPECTIVES: Hilti Group, Liechtenstein

The Leading Edge

Hilti supplies construction professionals in more than 120 countries.

The Hilti Group, headquartered in Liechtenstein, employs some 21 000 people and provides leading-edge technology and services to the global construction industry. The Group controls its international procurement operations and production facilities from Liechtenstein.

"Free trade agreements simplify customs clearance and shorten the processing times of goods consignments passing between contracting states. The results are administrative savings and reduced customs duties. For example, the Hilti Group consistently utilises the Pan-European accumulation of origin between the European Union, EFTA and Turkey in a manufacturing alliance with production plants and suppliers. With Europe still being the region that generates the largest share of Hilti's sales, the benefits of FTAs in this region are correspondingly large. However, in light of the Hilti Group's global operations, the evolving portfolio of FTAs is being monitored continuously to assess the potential for savings measured against the administrative effort", says Roeland Baaijens, Executive Vice President Logistics of the Hilti Group.

The Role of Social Dialogue

"Social dialogue is a fundamental element of the European social model and has often played a crucial role in world politics."

Helga Jónsdóttir
General Manager, Federation of State and Municipal Employees (BSRB), Iceland
Member of the EFTA Consultative Committee

EFTA's Consultative Committee represents the social partners in the EFTA countries. Together with EFTA's other advisory body, the Parliamentary Committee, it remains actively engaged in EFTA's work.

The June 2010 EFTA Ministerial meeting in Reykjavik marked a turning point in the role of the Consultative Committee, as the importance of social dialogue and sustainable development came clearly into focus. Social dialogue is a fundamental element of the European social model and has often played a crucial role in world politics.

One can argue that, with growing frictions between social actors, the importance of social dialogue is now greater than ever before. For instance, in a recent statement, Public Services International – a global trade union federation representing 20 million workers worldwide – was highly critical of the proposed plurilateral Trade in Services Agreement (TISA), which is being negotiated by a group of WTO members. In particular, it cautioned against the potential negative effects of deregulation on workers, farmers, service users and the environment.

The Consultative Committee must remain a platform for addressing these types of challenges through dialogue and consultation between the EFTA social partners and the EFTA authorities.

The EFTA States have contributed to the development and strengthening of global norms and must continue to do so. In particular, they have been traditional proponents of sustainable development. This concept has in time been internalised by development agencies, the United Nations, the European Union, non-governmental organisations and the academic society alike. Sustainable development has thus become the dominant organising principle in global development policy.

The model text on sustainable development, which was endorsed by EFTA Ministers in 2010, has been used in all recent EFTA free trade negotiations. The agreement with Bosnia and Herzegovina provides a good example of the model text being fully integrated in the final result of the negotiations, whereby the parties "recognise that economic development, social development and environmental protection are interdependent and mutually supportive components of sustainable development. They underline the benefit of cooperation on trade-related labour and environmental issues as part of a global approach to trade and sustainable development".

The EFTA Consultative Committee will continue to support the values that the Member States have stood for since EFTA's inception, including the promotion of the social dimension in European and world politics, protecting the environment and preserving equality between men and women.

BUSINESS PERSPECTIVES: Kanoria Chemicals, India/Switzerland

Investing in an EFTA Country

Kanoria Chemicals' subsidiary in Switzerland specialises in the design and engineering of electronic modules and control devices.

Kanoria Chemicals & Industries Limited (KCI) is a leading manufacturer of chemical intermediates in India. With over five decades of experience in the chemicals industry, KCI has started to diversify into renewable energy and knowledge-based sectors.

KCI acquired APAG Holding AG, Switzerland, in 2012. APAG is engaged in the development and sale of electronic and mechatronic modules and control devices for the automotive, consumer goods, power tool electronics and building automation industries. While APAG's designing and engineering facility is located in Switzerland, its products are manufactured in the Czech Republic.

"Kanoria Chemicals is an Indian family-run company. Thus, the high commitment of our workforce, closeness to our customers and management approach are similar to those found in Swiss SMEs. Many Indian companies are becoming global operators and are investing abroad. Switzerland is an interesting location because it provides innovation in high-tech areas and has a top qualified workforce. Another core aspect is the fact that Swiss business culture is very international.

When we invested in APAG, we took Swiss free trade agreements for granted. APAG needs good market access as it is active in highly competitive markets. The FTAs of Switzerland and EFTA are helping to establish dynamic business models out of a small home market. Thus, the more FTAs Switzerland and EFTA conclude, especially with emerging markets, the more inbound foreign direct investment will come to Switzerland", says R.V. Kanoria, Chairman of Kanoria Chemicals.

PART IV: The Bigger Picture – Views from Academia

Preferential Trade Agreements: A Multilateral Perspective

Patrick Low[1]

Introduction

The relationship between preferential trade agreements (PTAs)[2] and the multilateral trading system has sparked endless debate about how PTAs have affected the integrity and relevance of the World Trade Organization. For some, preferentialism is divisive, costly and largely unwelcome. This has become something of a minority view in recent years, although a wide body of literature acknowledges that whatever the benefits are of these kinds of agreements, they nevertheless carry costs avoided by a non-discriminatory regime. For others, PTAs are a reflection of the need for governments to maintain a context for trade cooperation in the face of the WTO's failure for almost two decades to negotiate anything. If PTAs are really a self-help mechanism, the argument goes, one should not be too critical of their discriminatory fallout.

While both of these views can be defended, neither of them is particularly conducive to a search for pragmatic middle ground in a situation where both complementarity and conflict are possible. A nuanced view recognises that non-delivery on the part of the WTO has almost certainly contributed to the explosion of PTAs in the last two to three decades. At the same time, some PTAs are clearly designed to integrate their members more deeply and across a wider range of issues, going beyond what the WTO can realistically offer.

This article explores the origins of PTAs and their rationale, the costs of preferentialism, the reasons for stasis in the WTO's negotiating functions, and a possible way forward for attaining greater coherence between the WTO and PTAs.

The Origins and Rationale of PTAs

The possibility of discriminatory trade arrangements was permitted from the GATT's inception[3] (Hudec, 1991), in no small part to cover arrangements already in place. The first major preferential agreements were established in Europe – the Treaty of Rome establishing the European Community in 1957 and the creation of EFTA in 1960. By 1990 some 70 PTAs existed[4]. Today, more than 300 preferential agreements are in operation. Many more are being negotiated. Every WTO member belongs to, or is in the process of negotiating, one or more PTAs. Some countries belong to many, with the result that, on average, each WTO member is signatory to no fewer than 13 different preferential agreements. Approximately half of the PTAs in existence today are bilateral, while the rest incorporate three or more members.

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2 The designation of agreements among a subset of WTO members as preferential is preferable to the other commonly used designations – free trade area or regional trade agreement. This is because PTAs neither achieve free trade nor are all regional.

3 This article only discusses reciprocal preferences embodied in free trade areas and customs unions. It does not consider non-reciprocal preferences.

4 The figures cited here and in the following paragraphs are taken from the WTO's World Trade Report 2011.

Over the years, PTAs have become less about tariff preferences and more about the regulatory side of trade. It is somewhat surprising that in 2008 only 16% of trade between WTO members received preferential treatment in the face of positive most-favoured-nation (MFN) tariffs. Half of the balance was already MFN duty free and the rest were items to which PTAs partners did not extend discriminatory access. It is notable that two-thirds of goods attracting MFN tariffs in excess of 15% were not granted preferences under any PTA. Thus, while the non-tariff measure side of PTAs has become more important, it does not mean that tariffs are no longer an issue in relation to some trade flows.

Why have PTAs proliferated so much in recent years? It is tempting to attribute this to the failure of the GATT/WTO to deliver on negotiations. No doubt there is some truth to this, but it is far from the whole story. A major expansion in PTAs took place during the Uruguay Round, for example, even though this was considered a highly successful negotiation. An element in PTA formation is political, possibly embracing considerations that are not relevant in a multilateral setting. Forging neighbourly relations or solidifying political links are likely to be relevant in some cases. The recent drive to establish "mega-regionals" such as the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Transatlantic Trade and Investment Partnership (TTIP) are clearly suffused with geopolitics. Some of the politics behind PTA formation, such as regional rivalries, could perhaps be partly addressed in a multilateral setting, but other elements need the specificity of a narrower setting.

Among the other reasons why governments are attracted to PTAs is the fear of exclusion, or the domino effect. Some PTAs aspire to go further and faster than the WTO, reflecting frustration with ponderous multilateral processes. In other cases a PTA may seem appealing as an insurance policy against the risk of emerging protectionism, on the assumption that preferential partners would be the least and last affected. Alternatively, PTAs could serve as a protectionist mechanism, explicitly designed to draw some economies closer together while excluding others. While discrimination obviously has exclusionary effects, there is not much evidence that PTAs have been designed with this objective in mind, at least not until the strategically-driven mega-regionals appeared. It would be fair to withhold judgment on these agreements, however, until we see what they look like. Finally, some PTAs have been motivated in part by the desire to impart a sense of credibility about a government's policy intent, as well as continuity and greater stability through a tie-in effect.

Taking all these considerations together, it is implausible to suggest that PTAs will go away in any foreseeable future. This does not mean that PTAs cause no harm or run no risk of fragmenting trade relations in ways that would be very difficult to reverse. Nor does it mean that nothing can be done to minimise the costs of discrimination through preferential trade. These issues are taken up in the rest of the article.

The Costs of Preferentialism

One analytical difficulty in reaching conclusions about the costs of discrimination in trade arises from the fact that we need to be clear about the point of comparison. If the basis for assessing the downside of discrimination is a perfect world in which no discrimination occurs, then the picture is clear. But the theory of the second best (Lipsey and Lancaster, 1955-56) tells us that if the first best is unattainable, we cannot readily make economic welfare comparisons between different, potentially second best, discriminatory scenarios. While this theoretical construct might seem arcane, it can be important when attempting to assess the impact of PTAs. It can mean that we are unable at first glance to conclude that less discrimination is better than more – it all depends on the circumstances.

From another perspective, Jacob Viner showed that discriminatory trade policy could both create and divert trade (Viner, 1950). Trade creation occurs when one country inside a PTA captures market share in the domestic market of another country inside the grouping as a result of the preferential lowering of a tariff. Trade diversion occurs in a similar situation, except that a more efficient producer outside the PTA loses the market to a less competitive preferential supplier. Trade diversion is obviously a cost to the global economy, which may be set off or partially so by trade creation or through a growth effect arising from the trade opening that occurs within a PTA from which outsiders can also benefit. The impact of trade diversion is ultimately an empirical matter depending on the situation prior to the establishment of a PTA as well as on its design. In short, we should not deny the real possibility of costs attached to discrimination.

In modern economies, it is not tariffs that are the greatest source of concern in terms of the discriminatory impact of PTAs. It is regulation and the risk of a continuing process of regulatory divergence. Trends are not easy to identify with precision, but it is not difficult to see how product standards diverge in ways that segment markets and affect competition. To the extent that PTAs reinforce regulatory differences, they augment the costs of doing business. The recognition of professional qualifications is a good example of where this occurs.

Another source of additional cost associated with PTAs is the rules of origin, which distort markets and sourcing choices when producers are obliged to trade off efficiency in production with access to markets. Rules of origin regimes also oblige businesses to incur deadweight administrative costs to ensure compliance. More generally, in a world of highly integrated production structures, where the ubiquity of global value chains has resulted in some two-thirds of merchandise trade consisting of intermediate goods, it is not difficult to see how markets fractured by criss-crossing and potentially incompatible trade regimes can frustrate trade and raise costs. The same can be said in respect of services, which are a considerably larger share of total trade than is generally appreciated, or easily measurable.

The WTO: Weakened Negotiating Capacity

The only successfully concluded negotiations under the auspices of the WTO have been on telecommunications and financial services, the Information Technology Agreement (ITA), and the re-negotiation of the Agreement on Government Procurement (GPA). These are slim pickings in comparison to what has been on the table for 12 years in the Doha Round. At the time of writing, much rides on the outcome of the WTO Ministerial meeting in Bali, Indonesia,

The 159-member World Trade Organization deals with the rules of trade at global level. © World Trade Organization in December 2013, in terms of making progress in those negotiations. In thinking about how PTAs and the WTO might cohere more effectively, it is worth asking what is amiss with the WTO in relation to its negotiating function.

Possible explanations fall into two broad categories. The first is political, and also applies in other realms of international cooperation such as climate change and the international financial architecture. The last few years have witnessed a sharp shift in the weight of economic power, largely towards China and the East, as well as other emerging economies. This has changed the leadership dynamics on the international scene and has made agreement more difficult.

One way this manifests itself is in terms of the substantive discussions that have taken place over the years on the balance of rights and obligations among WTO members. The industrial countries tend to the view that the emerging economies are excessively reticent about raising their level of obligations. The emerging economies feel that despite their dynamic growth rates they still face considerable developmental challenges, in respect of which the industrial countries are less than fully understanding. These differences will have to be finessed for real progress to be made.

Secondly, there is the question of what is being negotiated. One aspect of this question is whether what the WTO is negotiating more than a decade on from the launch of the Doha Round really responds to the needs of the world economy. Some have said the agenda is markedly 20th century and the WTO is being left behind. The prominence and continued growth of international value chains is at the heart of this concern. The main point is that business cannot compartmentalise policy on goods, services, investment, procurement, standards and intellectual property in the way that the WTO does. This leads to incoherence, potential inconsistencies and makes the rules less responsive than they should be to the needs of the marketplace. This is an area where work is needed. Some lessons could be drawn from the way in which some PTAs have sought to respond to this reality.

Another argument is that historically the WTO has mis-specified its core mission, over-emphasising trade liberalisation at the expense of playing to its real strength, which is rule-making. History shows that apart from the reduction of industrial tariffs in industrial countries over several decades, the GATT/WTO's record on market opening has not been strong. No developing country has ever lowered an applied MFN tariff on the altar of a GATT/WTO negotiation other than in a GATT/WTO accession and in the ITA. Moreover, the record on market opening in labour-intensive manufactures, services and agriculture is modest at best. One reason for patchy and modest progress on trade liberalisation is the juxtaposition of reciprocity and MFN as principles for negotiating market access. The combination of reciprocity and MFN makes it difficult for large and small countries to negotiate. Large countries will typically be reluctant to negotiate on the basis of relative reciprocity with small ones because they do not want other large countries to free ride on such deals via MFN. They want absolute reciprocity, not relative reciprocity, however measured. The Doha Round is more intensive in trade liberalisation than practically any other negotiation in the history of the institution. We should also remember that, unlike the WTO's function of establishing global trade rules, there are other venues for trade liberalisation – namely the preferential and unilateral routes.

The third aspect of the content of negotiations is about the legal character of agreements under the WTO. There is a tendency to assume that the WTO only deals with hard law which is justiciable through the dispute settlement system. Perhaps, however, there is room for softer versions of cooperation, ranging from information sharing to comity. The purpose of considering this approach is not to weaken the level of contractual commitment, but rather to facilitate and deepen it on the basis of a better understanding among potential parties to agreements. The Trade Policy Review Mechanism and the 2006 Transparency Mechanism[5] for examining notified PTAs are examples of this approach.

[5] The full name of the mechanism is the Decision on a Transparency Mechanism for Regional Trade Agreements (adopted on 14 December 2006).

The WTO and PTAs: Towards Greater Coherence

An obvious mechanism for bringing PTAs and the WTO closer together would be for the WTO to make more progress multilaterally. But there is also another possibility – the multilateralisation of regionalism[6]. In the case of tariffs, this might mean that each PTA would work towards narrowing the gap between MFN and preferential rates on a non-discriminatory basis. The WTO's role here would be a gradual process of consolidation and rationalisation. On the regulatory side, the process could begin by concentrating on the least contentious elements in PTAs and simply making them part of the WTO. Provisions would be crafted on the basis of whichever PTA was deemed to strike the most appropriate balance around which agreement could be achieved, or else new provisions could be fashioned from an amalgam of different approaches. The relevant provisions in the PTAs concerned would then be aligned to the new multilateral formulation. A prior stage to actually crafting new WTO provisions might be to develop best practices as a way of building confidence in the process. An obvious place to launch work in this direction would be through the Transparency Mechanism.

One key feature that would influence the success of a programme of multilateralisation relates to decision making. On the assumption that some of the leading PTAs, including between developed and developing countries, may aim for provisions exceeding the quality found in the WTO, it is reasonable to assume that some of these would go further than a number of smaller and weaker economies would consider manageable, or in their best interest. For this reason, a viable multilateralisation process would need to be based on a critical mass decision-making approach of the kind used in the telecommunications and financial services negotiations and in the ITA. The essence of this approach is that it customises the balance of rights and obligations among the membership around each issue, without embedding any discrimination against those who do not assume the obligations in question. A critical mass defines itself in terms of which members the participants believe must be part of the agreement before it can be multilateralised.

Concluding Observations

Preferential trade agreements will not disappear any time soon. They do not offer the inclusiveness of the multilateral trading system and carry additional costs. But the perfect is not necessarily the friend of the possible. Rather than gainsay preferentialism, the challenge is to blunt its downside, rejuvenate and give meaning to the global vision of the WTO, and launch a process to multilateralise PTAs.

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[6] See Low (2012) for an elaboration of how this might work.

BUSINESS PERSPECTIVES: Vaki, Iceland

The Fish Scanner

From fry to harvest size – Vaki's equipment allows for the accurate monitoring of all species.

Iceland-based Vaki is a leader in the development and manufacture of aquaculture and river fish stock management equipment. The company's infrared scanning technology and cameras provide for a high level of automation in the monitoring of fish migration in rivers and lakes, resulting in improved efficiency in aquaculture and wild fish research. Vaki employs 40 people in three countries and exports to more than 50 markets, a number of which are EFTA free trade partners.

"The free trade agreement between EFTA and Chile strengthened our market position in Chile, which is our main export market. It abolished a 6% customs tariff on our products which, in such a highly competitive environment, is a significant reduction. The FTA with Canada is also important for us since it puts Vaki in a privileged position compared to some of our competitors", says Hermann Kristjánsson, Managing Director of Vaki.

EFTA Free Trade Agreements: Past, Present and Future

Professor Thomas Cottier[1]

A Common Platform for Negotiations

In these high days of preferential trade agreements, it is worth recalling that EFTA laid the foundations of modern post-World War II free trade agreements, offering an alternative to deeper regional integration within the customs union of the European Economic Community. Founded in 1960, EFTA provided a framework for European countries neither able nor willing to join the EEC. Within the two options provided for by Article XXIV of the GATT 1947 – customs unions and free trade areas – EFTA responded to the latter and thus to the path of international cooperation as opposed to deeper integration and supranational structures. EFTA reflected the traditional precepts of sovereignty, maintaining full jurisdiction over foreign external relations and leaving domestic institutions without the supervision of international bodies. The EFTA Secretariat, until the signing of the EEA Agreement with the Member States of the European Union, would not engage in supervisory functions comparable to those performed by the Commission of the EEC.

From the outset, the main purpose of EFTA was not so much to foster trade between its members, although this was for a time of considerable importance, e.g. between Denmark, Ireland and the United Kingdom. Trade between the EFTA countries, e.g. Norway and Switzerland, never developed to a level expected in a free trade zone. Rather, based upon the experience of failed efforts by single countries to bring about a bilateral association with the EEC in the early 1960s, EFTA developed in building a joint platform for multilateral negotiations with the six EEC members; joining forces led the EEC to the negotiating table. When Denmark, Ireland and the United Kingdom joined the EEC in 1972, this joint effort was most crucial for the conclusion of the 1972 landmark FTAs between individual EFTA States and the EEC on industrial goods and processed agricultural products. They gradually provided full market access in industrial goods to and from the EEC. While in the meantime most EFTA members left for the European Union or signed the EEA Agreement, the 1972 FTA continues to provide the main pillar in Swiss-EU relations after more than 40 years of existence. The format used then for trade negotiations – preparing jointly and concluding separately – has been a successful mantra of EFTA ever since.

The 1972 EFTA very much shaped long-term attitudes of the Association in subsequent negotiations. Strongly relying upon the disciplines of the GATT, EFTA focused on industrial goods and processed agricultural products, leaving basic agricultural products largely aside. Switzerland and Norway continue to be among the most protectionist agricultural producers even within EFTA trade. Likewise, EFTA did not strongly venture into trade in services prior to the 1995 GATS, despite the EFTA Convention having laid foundations to this effect. On the other hand, EFTA made major contributions to addressing non-tariff barriers. The 1988 Tampere Convention was a milestone in technical barriers to trade. It strongly influenced subsequent developments within the EEC and the GATT, providing the foundations for the code and subsequent WTO Agreement on Technical Barriers to Trade. The obligation to notify a draft regulation and allow for international comments has remained a unique feature originally developed by the EFTA countries.

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EFTA-EEC relations were initially founded on the 1972 FTAs, but subsequent developments were no longer made in tandem. While Switzerland constantly upgraded its bilateral relations, resulting in more than 130 additional bilateral instruments, other EFTA members were less prepared when the European Union adopted the Single European Act and returned to majority voting in 1986 in matters relating to the Common Market. The Internal Market programme created fears among the majority of EFTA countries of facing market access restrictions. It led to the 1992 Agreement on the European Economic Area.

Splitting EFTA and Diverging Avenues to European Integration

The EEA Agreement completely reshaped relations between the EFTA States and the emerging European Union. Austria, Finland and Sweden eventually joined the European Union in 1995. Iceland, Liechtenstein and Norway stayed in the EEA, and Switzerland opted to stay outside of the EEA and to continue on its well-established path of sectoral bilateral agreements. The principal common raison d'être of EFTA – defining common relations with the European Union – ceased to exist, and split EFTA into two different camps. Institutionally, the EFTA Secretariat was split into a Brussels office dealing with the EEA and a Geneva office dealing with external relations. The EEA Agreement brought about a solid institutional framework in dealings with the European Union, characterised by the EFTA Surveillance Authority (ESA) and the EFTA Court, including preliminary rules. It also brought about parallel control, by the European Commission and the European Court of Justice, of EEA Treaty obligations on the part of the EU Member States. Swiss-EU relations, on the other hand, remained without any common institutional framework beyond mixed committees. The divide could not be more prominent. EFTA ceased to exist as a common platform for dealings with the European Union. Moreover, it was reduced to four members. It had clearly lost the battle for a large free trade zone within Europe against a predominant customs union and deeper integration.

The Shift to Third-Country Relations

While relations with the European Union henceforth were defined by the EEA Agreement and a separate Swiss agenda, third-country relations emerged as a new common theme for the four remaining EFTA countries. Since 1990, EFTA's members have jointly concluded 26 FTAs[2]. These agreements were negotiated as a group in the traditions of the 1972 FTAs and a common template. In some cases, countries preferred to go on their own, depending on prevailing and potentially conflicting interests. Thus, FTAs with Japan, China and the Faroe Islands were concluded separately by Switzerland. Likewise Iceland, Liechtenstein and Norway concluded separate agreements with the Faroe Islands, and Iceland concluded a separate agreement with China.

EFTA thus was reduced to a marriage of convenience and each partner reserved the right to go it alone. Nevertheless, all of these agreements show common traits in terms of structure and content. As before, they rely strongly upon WTO disciplines and exclude agriculture to the extent possible. They venture cautiously into services, yet without major breakthroughs compared to the level of liberalisation in GATS. They entail elements of "TRIPS plus" (Agreement on Trade-Related Aspects of Intellectual Property Rights), in particular on the part of Switzerland, and expand into protection of investment in line with current trends.

Overall, the template of EFTA agreements remains classic. They are not uniform, and are tailored to each member. Yet we search in vain for new and pioneering approaches to current and impending challenges. For example, recent EFTA free trade agreements contain a chapter on trade and sustainable development, yet without offering innovative rules on key issues such as Process and Production Methods (PPMs) of transfer of technology in the operative part on trade in goods. Liberalisation in services remains cautious and intellectual property protection largely follows "WTO plus" rules. The template and model of the North American Free Trade Agreement has been more

[2] See http://www.efta.int/free-trade/free-trade-agreements for a list of concluded agreements.

influential in shaping new approaches, for example to labour relations, environment and investment protection. The world no longer looks to EFTA agreements for guidance. Their main function, it would seem, is to prevent or remedy potential discrimination on third markets in relation to the European Union. The EFTA agenda is synchronised with the EU's external relations agenda with emerging economies. Partly, EFTA succeeds in passing the line ahead of the European Union. Partly, it follows suit.

EFTA and EU agreements, however, differ considerably. While EFTA agreements focus on classical areas of market access, EU agreements are more elaborate and comprehensive. EU templates are closer to association and overall development agreements, with an important component on trade and investment. This is particularly true for agreements concluded under the economic partnership agreement (EPA) framework. Moreover, the geographical scope varies considerably. The European Union currently has 20 association agreements in place[3], many of which are in regions where the EFTA countries are completely absent. This is particularly true in respect of Africa, except for North and South Africa. Pressing problems on immigration, which equally affect the EFTA countries, remain without a proper response in terms of economic and commercial cooperation. In the long run, EU association agreements offer deeper relations and are likely to marginalise the current generation of EFTA agreements to the extent that they exist. The same is true in relation to trade agreements concluded by the United States, using NAFTA templates. These agreements are more comprehensive. They offer a broader scope of cooperation than can be observed in EFTA agreements. They do not engage in burden sharing in terms of development and focus on an agenda of trade promotion.

The Prospects of TTIP and TPP

Ongoing negotiations between the United States and the European Union, encompassing 50 States in North America and the 28 EU Member States, and thus some 50% of world trade and 30% of world GDP, risk creating a major and perhaps final blow to EFTA. It is much too early to discuss potential outcomes. The challenges are formidable, and the prospects of finding common ground in terms of non-tariff barriers and regulations, mainly addressing behind-the-border issues, remain questionable. Yet, to the extent that the European Union and the United States, in light of changed geopolitical constellations, are willing and able to agree even in selected areas and sectors such as the chemical, pharmaceutical or automotive industries, new global standards will emerge. The EFTA countries will be able to adjust to those unilaterally. To the extent, however, that they depend upon mutual recognition, the EFTA countries will face formidable discrimination. Efforts to latch onto TTIP agreements may be successful, yet may also fail in light of the fact that most countries around the world seek equal treatment. It is more likely therefore that those results will eventually be multilateralised within the WTO. This will take time, however, and may force industries to relocate to the European Union in the meantime in order to avoid trade distortions. Likewise, the implications of the Trans-Pacific Partnership which is currently being negotiated between 12 American and Asian countries, including the United States and Japan, are likely to produce market access restrictions and discrimination even where EFTA free trade agreements exist with TPP members. It is unlikely that the TPP will extend accumulation of origin and mutual recognition to external free trade partners and thus allow market access to the TPP by way of an EFTA free trade agreement with one of its members.

Overall, the potential for EFTA free trade agreements to secure long-term market access in light of the impending TTIP and TPP is limited. Comparable to the EEA Agreement in 1992, a successful TTIP will forcefully push the remaining EFTA members to consider EU membership – this time in light of third-country relations and the geopolitical changes that affect current and future developments. The mere extension of the EEA to a customs union will hardly suffice, as the main focus will be on non-tariff barriers, services, intellectual property rights, investment, and trade-and-development issues.

3 For the complete list of association agreements, see http://eeas.europa.eu/association/docs/agreements_en.pdf.

European dialogue: EU and EEA EFTA parliamentarians at a meeting of the EEA Joint Parliamentary Committee in the European Parliament.

The Future of EFTA

The EFTA "split" and the challenges in third-country relations in light of the TTIP and TPP projects call for a rethink of the future role of the organisation in Europe and worldwide. For the time being, Europe will evolve at four speeds. Two are within the European Union, entailing the Monetary Union and the Internal Market. A third one is the EEA Agreement. There is a need to provide for a fourth circle of countries that are unwilling or unable to join the European Union or the European Economic Area. There is also a need to provide a proper and coherent framework for the European "micro-states", in particular Andorra, Monaco, San Marino and perhaps the Vatican. EFTA is a suitable platform to this effect and perfectly able to shape the relations of its Member States with the European Union through a common and shared institutional framework.

If the institutional architecture of the EEA Agreement were to be extended to non-EEA countries, then EFTA would be particularly well placed to accommodate even the complex Swiss-EU relations. Arguably, the European Union's legitimate objective of overcoming current institutional deficiencies in Swiss-EU relations by way of introducing international surveillance and judicial review can best be served by recourse to the EFTA institutions – ESA, the EFTA Court and the joint Council – developed for the EEA. These mechanisms can equally be used for existing and future sectoral agreements. Switzerland's path of integration may also be extended to other countries outside the European Union which, for their own reasons, may be interested in joining EFTA on comparable terms. These may include the "micro-states" and perhaps others, such as Ukraine. In some cases, countries may be seeking a close relationship with the European Union, but may fall short of being accepted for membership or may themselves be reluctant to accept supranational structures of deeper integration.

The European Union should stand ready to engage in shaping what may be called the fourth circle of European integration, in addition to the layers of the Monetary Union, the Internal Market and the EEA. It should be interested in developing coherent and common forms of cooperation with common institutions of surveillance and judicial review as countries wait to enter the EU or decide to remain outside. The European Union should also be interested in an organisation engaged in burden sharing.

EFTA could thus develop into an institutional host for existing and future EU association with states wishing to maintain the traditional perceptions of national sovereignty within Europe. EFTA could expand its function of surveillance and adjudication in the spirit of international cooperation on the basis of agreements that may vary from country to country. Unlike the EEA, relations would not be uniform but rely upon tailor-made agreements. EFTA could engage in technical assistance and knowledge transfer within the community of these countries. It could develop a voice to speak for the countries in the third and fourth circles of integration vis-à-vis the European Union and the world. This would enhance its chances of latching onto the TTIP on the side of the European Union, and would increase the voice of EFTA in international organisations, in particular the WTO.

An expanded membership would change the nature of EFTA. Differences in social and economic development, as well as governmental structures, would require a rethink of the scope and level of commitments and would imply a departure from traditional approaches. The integration of new members would need to entail progress in agriculture, as many countries depend upon agricultural exports for stability and prosperity. It would require the enhancement of components of focused assistance, technical cooperation and migration policies, so far largely absent from EFTA. EFTA, in other words, would move closer to the templates and types of agreements concluded by the European Union with developing and emerging economies. It would engage in European burden sharing.

Increasing the number of EFTA members would reinvigorate the tradition of a common platform of negotiations with the European Union and other countries. Negotiations between the EU and EFTA members would entail the support and involvement of the EFTA Secretariat. The increase in membership would reinforce the standing of EFTA vis-à-vis the European Union, within the WTO and with other international organisations. An extended membership would also increase the potential for concluding substantial FTAs with third countries and for finding solutions in latching on appropriately to future systems of preferential trade, encompassing major markets.

Structuring the fourth circle of European integration calls for common institutions within EFTA, but does not require uniform agreements. Divergent needs and levels of social and economic development can be taken into account under a common roof. The structure allows for tailor-made solutions, and the bilateral avenue pursued by Switzerland is an example in point. The main focus of EFTA will again be on European integration and its relations with the European Union. Third-country relations, given the nature of the free trade zone, may continue to be pursued jointly or in isolation. Joint efforts, where possible, will increase leverage. Isolated agreements between single EFTA States with third countries may be easier to achieve depending on the interests at stake. Yet only an EFTA speaking with one voice will render it a respected partner and a lasting alternative to fully fledged integration within the European Union for those states that prefer to stay away or are unable to join.

ANNEXES

Annex I: EFTA'S Third-Country Partners

Partners	Signing of Joint Declaration	Signing of Free Trade Agreement	Entry into Force	Termination
Albania	10 December 1992	17 December 2009	1 November 2010 for Liechtenstein and Switzerland 1 August 2011 for Norway 1 October 2011 for Iceland	
Algeria	12 December 2002			
Bosnia and Herzegovina		24 June 2013		
Bulgaria	10 December 1991	29 March 1993	1 January 1994	1 January 2007
Canada		26 January 2008	1 July 2009	
Central American States	20 July 2010 (with Panama)	24 June 2013 with Costa Rica and Panama		
Chile		26 June 2003	1 December 2004	
Colombia	17 May 2006	25 November 2008	1 July 2011 for Liechtenstein and Switzerland	
Croatia	19 June 2000	21 June 2001	1 April 2002	24 November 2013
Czech Republic	13 June 1990[1]	20 March 1992[1]	1 July 1992[1]	1 May 2004
Egypt	8 December 1995	27 January 2007	1 August 2007	
Estonia	10 December 1991	7 December 1995	1 October 1997	1 May 2004
Georgia	28 June 2012			
Gulf Cooperation Council[2]	23 May 2000	22 June 2009		
Hong Kong China		21 June 2011	1 October 2012 for Liechtenstein, Switzerland and Iceland 1 November 2012 for Norway	
Hungary	13 June 1990	29 March 1993	1 October 1993	1 May 2004
Israel		17 September 1992	1 January 1993	
Jordan	19 June 1997	21 June 2001	1 September 2002	
Republic of Korea		15 December 2005	1 September 2006	
Latvia	10 December 1991	7 December 1995	1 June 1996	1 May 2004
Lebanon	19 June 1997	24 June 2004	1 January 2007	
Lithuania	10 December 1991	7 December 1995	1 January 1997	1 May 2004
Macedonia	29 March 1996	19 June 2000	1 May 2002	
Malaysia	20 July 2010			
Mauritius	9 June 2009			
MERCOSUR	12 December 2000[3]			

Partners	Signing of Joint Declaration	Signing of Free Trade Agreement	Entry into Force	Termination
Mexico		27 November 2000	1 July 2001	
Mongolia	28 June 2007			
Montenegro	12 December 2000[4]	14 November 2011	1 September 2012 for Liechtenstein and Switzerland 1 October 2012 for Iceland 1 November 2012 for Norway	
Morocco	8 December 1995	19 June 1997	1 December 1999	
Myanmar	24 June 2013			
Pakistan	12 November 2012			
Palestinian Authority	16 December 1996	30 November 1998	1 July 1999	
Peru	24 April 2006	24 June (Reykjavik) / 14 July 2010 (Lima)	1 July 2011 for Liechtenstein and Switzerland 1 October 2011 for Iceland 1 July 2012 for Norway	
Poland	13 June 1990	10 December 1992	1 September 1994	1 May 2004
Romania	10 December 1991	10 December 1992	1 July 1993	1 January 2007
Serbia	12 December 2000[4]	17 December 2009	1 October 2010 for Liechtenstein and Switzerland 1 June 2011 for Norway 1 October 2011 for Iceland	
Singapore		26 June 2002	1 January 2003	
Slovak Republic	3 June 1990[1]	20 March 1992[1]	1 July 1992[1]	1 May 2004
Slovenia	20 May 1992	13 June 1995	1 September 1998	1 May 2004
Southern African Customs Union[5]		26 June 2006	1 May 2008	
Spain		26 June 1979	1 May 1980	1 January 1986
Tunisia	8 December 1995	17 December 2004	1 June 2005	
Turkey		10 December 1991	1 April 1992	
Ukraine	19 June 2000	24 June 2010	1 June 2012	

1 With Czechoslovakia.
2 Comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.
3 With Argentina, Brazil, Paraguay and Uruguay.
4 With the Federal Republic of Yugoslavia.
5 Comprising Botswana, Lesotho, Namibia, South Africa and Swaziland.

Annex II: EFTA'S Free Trade Partners (2013)

Rank	Country	Total Trade (million USD)	Share (%)	Exports (million USD)	Share (%)	Rank	Imports (million USD)	Share (%)	Rank
	World	681 769	100.00	392 112	100.00	n.a.	289 657	100.00	n.a.
	EU28	465 902	68.34	260 064	66.32	n.a.	205 838	71.06	n.a.
	EFTA third-country partners (35) excl. EU28	63 480	9.31	44 959	11.47	n.a.	18 522	6.39	n.a.
	Intra-EFTA	5 597	0.82	2 973	0.76	n.a.	2 623	0.91	n.a.
	Bilateral FTA partners (China, Japan, Faroe Islands)[1]	46 244	6.8	20 219	4.1	n.a.	26 025	8.98	n.a.
1	Germany (EU)	134 374	19.71	64 545	16.46	1	69 829	24.11	1
2	United Kingdom (EU)	68 120	9.99	55 347	14.12	2	12 774	4.41	6
3	France (EU)	45 324	6.65	25 712	6.56	4	19 612	6.77	3
4	Italy (EU)	42 457	6.23	19 784	5.05	5	22 672	7.83	2
5	Netherlands (EU)	37 189	5.45	26 757	6.82	3	10 433	3.60	7
6	China[1]	30 163	4.42	10 804	2.76	7	19 359	6.68	4
7	Sweden (EU)	25 401	3.73	11 937	3.04	6	13 464	4.65	5
8	Belgium (EU)	17 141	2.51	9 916	2.53	8	7 225	2.49	10
9	Austria (EU)	16 632	2.44	7 620	1.94	13	9 013	3.11	8
10	Spain (EU)	15 674	2.30	8 590	2.19	11	7 083	2.45	11
11	Japan[1]	15 648	2.30	9 034	2.30	10	6 614	2.28	12
12	Denmark (EU)	14 398	2.11	7 831	2.00	12	6 567	2.27	13
13	Hong Kong China	11 204	1.64	9 121	2.33	9	2 083	0.72	18
14	Ireland (EU)	10 348	1.52	2 415	0.62	22	7 933	2.74	9
15	Korea, Republic of	9 082	1.33	7 051	1.80	14	2 032	0.70	19
16	Poland (EU)	8 933	1.31	4 530	1.16	16	4 403	1.52	14
17	Canada	7 486	1.10	4 248	1.08	17	3 238	1.12	16
18	Singapore	6 674	0.98	5 147	1.31	15	1 527	0.53	22
19	Finland (EU)	6 485	0.95	3 291	0.84	19	3 194	1.10	17
20	Czech Republic (EU)	6 451	0.95	3 142	0.80	20	3 309	1.14	15
21	Turkey	4 882	0.72	2 875	0.73	21	2 008	0.69	20
22	United Arab Emirates[2]	4 316	0.63	3 705	0.94	18	611	0.21	33
23	Mexico	2 753	0.40	1 590	0.41	24	1 162	0.40	26
24	Portugal (EU)	2 572	0.38	1 454	0.37	25	1 118	0.39	27
25	Hungary (EU)	2 498	0.37	1 168	0.30	29	1 330	0.46	24
26	South Africa	2 446	0.36	918	0.23	31	1 529	0.53	21
27	Norway	2 443	0.36	1 376	0.35	27	1 067	0.37	28
28	Saudi Arabia[2]	2 355	0.35	2 220	0.57	23	135	0.05	51
29	Switzerland	2 119	0.31	851	0.22	33	1 268	0.44	25
30	Romania (EU)	2 030	0.30	1 078	0.27	30	952	0.33	29

Rank	Country	Total Trade (million USD)	Share (%)	Exports (million USD)	Share (%)	Rank	Imports (million USD)	Share (%)	Rank
31	Slovakia (EU)	1 872	0.27	511	0.13	40	1 361	0.47	23
32	Israel	1 844	0.27	1 173	0.30	28	671	0.23	32
33	Greece (EU)	1 634	0.24	1 405	0.36	26	228	0.08	47
34	Lithuania (EU)	1 377	0.20	594	0.15	37	783	0.27	30
35	Ukraine	1 168	0.17	862	0.22	32	306	0.11	42
36	Estonia (EU)	1 151	0.17	463	0.12	42	688	0.24	31
37	Iceland	1 024	0.15	746	0.19	35	278	0.10	44
38	Qatar[2]	944	0.14	680	0.17	36	264	0.09	45
39	Egypt	904	0.13	811	0.21	34	94	0.03	53
40	Slovenia (EU)	883	0.13	422	0.11	44	461	0.16	36
41	Lebanon	875	0.13	557	0.14	38	318	0.11	39
42	Latvia (EU)	854	0.13	296	0.08	50	557	0.19	34
43	Colombia[3]	781	0.11	461	0.12	43	319	0.11	38
44	Chile	776	0.11	541	0.14	39	236	0.08	46
45	Morocco	720	0.11	403	0.10	45	316	0.11	40
46	Luxembourg (EU)	690	0.10	362	0.09	47	328	0.11	37
47	Peru	673	0.10	188	0.05	57	486	0.17	35
48	Bulgaria (EU)	621	0.09	339	0.09	49	282	0.10	43
49	Kuwait[2]	489	0.07	474	0.12	41	16	0.01	62
50	Tunisia	439	0.06	241	0.06	55	198	0.07	48
51	Croatia (EU)	434	0.06	257	0.07	54	178	0.06	49
52	Faroe Islands[1]	433	0.06	381	0.10	46	52	0.02	58
53	Panama	426	0.06	356	0.09	48	70	0.02	56
54	Botswana	348	0.05	33	0.01	64	315	0.11	41
55	Bahrain[2]	340	0.05	272	0.07	52	68	0.02	57
56	Oman[2]	292	0.04	283	0.07	51	9	0.00	65
57	Jordan	276	0.04	269	0.07	53	8	0.00	66
58	Serbia	268	0.04	162	0.04	58	106	0.04	52
59	Costa Rica	263	0.04	92	0.02	60	171	0.06	50
60	Cyprus (EU)	225	0.03	199	0.05	56	26	0.01	61
61	Macedonia	148	0.02	61	0.02	61	87	0.03	54
62	Bosnia and Herzegovina	138	0.02	60	0.02	62	78	0.03	55
63	Malta (EU)	134	0.02	100	0.03	59	34	0.01	60
64	Namibia	70	0.01	30	0.01	65	40	0.01	59
65	Albania	48	0.01	34	0.01	63	14	0.00	63
66	Palestine	30	0.00	29	0.01	66	1	0.00	69
67	Montenegro	13	0.00	11	0.00	67	2	0.00	68

Rank	Country	Total Trade (million USD)	Share (%)	Exports (million USD)	Share (%)	Rank	Imports (million USD)	Share (%)	Rank
68	Liechtenstein	11	0.00	1	0.00	70	10	0.00	64
69	Swaziland	9	0.00	3	0.00	68	6	0.00	67
70	Lesotho	1	0.00	1	0.00	69	0	0.00	70

Source: Global Trade Atlas. Data is for 2012.

[1] Iceland and Switzerland signed bilateral free trade agreements with China in 2013. Switzerland has a bilateral free trade agreement with Japan, which entered into force in 2009. All EFTA States have bilateral free trade agreements with the Faroe Islands, which have been in force since the early 1990s.

[2] FTA with the Gulf Cooperation Council (GCC) signed in June 2009. The agreement is expected to enter into force in early 2014.

[3] FTA with Colombia signed in 2008, but yet to be ratified by all parties.

n.a. = not applicable

GLOSSARY

BIT	Bilateral Investment Treaty
EC	European Communities
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
ESA	EFTA Surveillance Authority
EU	European Union
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services (WTO)
GATT	General Agreement on Tariffs and Trade (WTO)
GCC	Gulf Cooperation Council; comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates
GDP	Gross Domestic Product
GPA	Agreement on Government Procurement (WTO)
ILO	International Labour Organization
ITA	Information Technology Agreement (WTO)
JDC	Joint Declaration on Cooperation
MERCOSUR	Southern Common Market
MFN	Most-Favoured-Nation
NAFTA	North American Free Trade Agreement
PPM	Process and Production Method
PTA	Preferential Trade Agreement
RCEP	Regional Comprehensive Economic Partnership
SACU	Southern African Customs Union; comprising Botswana, Lesotho, Namibia, South Africa and Swaziland
SMEs	Small and Medium-sized Enterprises
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TISA	Trade in Services Agreement
TPP	Trans-Pacific Partnership
TRIPS	Trade-Related Aspects of Intellectual Property Rights (WTO)
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

The European Free Trade Association (EFTA) is an intergovernmental organisation set up for the promotion of free trade and economic integration to the benefit of its four Member States: Iceland, Liechtenstein, Norway and Switzerland. The Association is responsible for the management of:

- The EFTA Convention, which forms the legal basis of the organisation and governs free trade relations between the EFTA States;
- EFTA's worldwide network of free trade; and
- The Agreement on the European Economic Area, which enables three of the four EFTA States (Iceland, Liechtenstein and Norway) to participate fully in the Internal Market of the European Union.

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